

8/19/07

Mr. and Mrs. Conrad Grundke
2214-B Via Mariposa
Laguna Woods, Ca.

Dear Pam and Conniee

Because your letter addressed to me was copied to the directors of the three boards, GRF, United and Third, I'm compelled to copy all directors in this response so as to correct what appears to be a misunderstanding as to my purpose in wishing to meet with you, as well as some other matters addressed in your letter.

Connie, you made a recent appearance at the GRF Finance Committee, chaired by Don Tibbits. Several of your questions had to do with finance, and Don did a good job to see that they were fully and clearly answered. Following that, you had several questions that some on the committee thought should more appropriately be addressed by the M and C committee and therefore were not heard by us. You left the meeting, obviously disturbed that your issues weren't heard. Regardless of where or in which committee your concerns were to be addressed, I thought it important that they be addressed. I'm seriously concerned about the climate of animosity, distrust and contention which exists in the community. I hope we all realize how it affects our enjoyment and our ability to attract new residents. It is my opinion that much of the fight may be over the release of information, and the difficulty of obtaining it. I'm an advocate for more liberal release of information in the hope that those who receive it review it in an unbiased fashion. As an example, your pursuit of information on roof leaks to better establish priority for replacements is a worthy objective. And I'd like to assist in getting you the information you need. My hope, although probably naive, is that through better communication, difficult issues are more likely to be resolved peacefully. The purpose of my meeting with you was to see if you concurred with that view and that hopefully we might begin a plan to achieve it. You introduced specific subjects in our meeting, the management contract, for example, but these subjects, which I was very willing to discuss, were ancillary to my purpose. I also made it clear that my opinions are not necessarily the opinion of the board.

During the meeting you stated that the management contract was totally unsatisfactory. We had a general discussion, but you weren't prepared to discuss specifics. It was agreed that you would give me a list of your specific objections, and that I would attempt to answer them. I didn't agree to initiate any of your changes, and certainly not before I knew what you wanted. But no director should hesitate to initiate any change to any

policy or procedure having to do with running our community, if it was believed that it would be for the benefit of the entire community. And I would do my best to initiate changes to the contract if I believed they were for the common good.

I believe that the management agreement very adequately protects the residents. I'm aware that there is some concern from some residents about some of the provisions, but a careful reading of it dispels most concerns. There may be provisions that some don't like, e.g., the incentive plan. But it was the consensus of the boards, that it is of benefit to the residents. Do I favor an incentive plan? Yes. Do I think it the "perfect plan? No. But at least its a written provision. The plan can be modified, or even canceled as result of further experience with it.

The management contract committee consisted of members from each of three boards; Noel Hatch and Mark Stein, GRF; Beth O'Brien, Jim McNulty, Burns Nugent, United; and Richard Moss and me, Third. Noel Hatch, with extensive experience as a practicing attorney served as our chairman. The rest of us had no legal training, but our collective experience including contract review and negotiation was significant. A management contract, any contract is the expression of the needs of the principals, not attorneys. At the beginning the committee agreed that it was in our best interest that each of the contracts be as similar as possible, recognizing the different missions and different structures of our corporations. We therefore focused on the GRF contract to develop it as a model for the others. Subsequently , United hired an attorney to represent them. A draft was submitted to United by Robert Adel, and United submitted it to us. Upon careful evaluation, it was found to be better in terms of format and clarity, although no better in substance. Therefore the format was adopted by the three corporations, with modification necessary because of the different missions and structures. Contrary to what you suggested in your letter, I was neither the author nor the sole negotiator with PCM. In fact, in respect to Third, the only provision I directly negotiated with Milt Johns, was the incentive plan. And that was in the company of either Jim Matson and had to do with a cap on the amount of the award. The Third board was fully informed at each step during the entire negotiation process. Suggestions and changes were fully discussed and consensus gained during Third board meetings on all aspects of the contract during the negotiating process. Proposals were submitted to PCM on the condition they be approved by the board, or were approved in advance of submitting them to PCM. No proposal was set forth to PCM without the express approval of the board, or being subject to their approval.

I will leave it to me fellow directors to respond to your suggested changes. The only provision which I'll comment on is

your addition to the "Limitation on Powers of Agent." to read, " agent represents and warrants that it will not receive kickbacks, bribes, gifts, etc." Not only does the contract prohibit such action, although in more kindly manner, it is against the law for an agent to lie, cheat and steal from their principal. In fact, if I'm not mistaken, it is against the law to bribe or cheat anybody. Further, if I felt that language was necessary, I wouldn't enter into any kind of agreement. I also take exception to any suggestion by you as to "the partisan role you and Milt John's... neither of which is a qualified contract lawyer---" It is true that I am not an attorney. I don't understand the relevance of not being an attorney. The terms of any contract, not just management contracts, are set forth by the principals. They may be articulated by attorneys, and perhaps negotiated, but always in the framework of what is acceptable to the principals. With over thirty years working as an agent, I well understand not just the law of agency, but the ethical and moral aspects as well. To suggest that I was somehow collaborating with PCM and not working in best interests of Third is not only untrue, it is insulting. In my role as a representative of Third on the contract review, my allegiance was totally to Third. In essence I was acting as an agent of Third. But set that aside My great concern is the damage to the community by unnecessary partisanship or self interest. I'd like to be part of the solution, and I was hoping for your help.