

PRESS RELEASE - UNITED MUTUAL

From: United Laguna Hills Mutual Board of Directors
Re: Results of Independent Counsel's Investigation
of the PCM Incentive Plan
Date: April 26, 2011

As the community knows, Third Laguna Woods Mutual filed a lawsuit in June of 2010 against PCM, our former General Manager Milt Johns, and PCM's Financial Services and Finance and Administration Director Janet Price. The Third complaint alleged "serious and profound fraud and abuse" arising out of a "Pay for Results" incentive compensation plan originated by and utilized by PCM between 1996 and 2007.

Because of the seriousness of the allegations in the Third Mutual lawsuit, United retained David F. Feingold, Esq. and the law firm of Ragghianti Freitas LLP as Special Independent Counsel to investigate the Incentive Plan on behalf of United. Mr. Feingold is a common interest development lawyer from the San Francisco Bay Area, and has no ties to PCM or its affiliated companies. The Board was clear in its mandate to Independent Counsel: complete a comprehensive investigation of Third's allegations and provide an unbiased report as to whether United should/must take action against PCM, Johns and Price, and/or any and all of them.

After several months of records inspections, interviews, and analysis, Mr. Feingold completed his report and presented it to the Board. The report itself is an attorney client privileged communication and will not be released to persons besides the Board and United's legal counsel. With the cooperation of PCM, the Board also reviewed PCM internal records relating to the Incentive Plan and its operation between 1996 and 2007, pursuant to the terms of a confidentiality agreement.

Independent Counsel's investigation resulted in a recommendation that United not pursue a lawsuit or otherwise attempt to affirmatively recover Plan payments from PCM, Milt Johns, or Janet Price, or any other individual or entity.

It is Independent Counsel's opinion that such an attempt would likely not be successful, be prohibitively expensive to prosecute in light of the potential gain, expose United to additional liability, have a negative impact on property values, and adversely impact the community. And importantly, the Plan was

discontinued by PCM after 2007, and therefore litigation is not required to end a Plan that over its lifetime had grown to lack transparency.

First, with regard to the recommendation that no action be taken, and with regard to how the allegations in the Third lawsuit might pertain to United, Independent Counsel found that:

1. The United Board of Directors “knew” of the Incentive Plan when the relevant management contracts between United and PCM were executed. Corporations are held to knowledge that their directors or officers, acting as agents for the corporation, receive relating to material factual issues. While less than all United directors knew of the Plan or knew of the Plan but did not know its details, in litigation, United will likely be found to have knowledge of the Plan based on this doctrine of imputed knowledge.

2. The relevant management agreement included language that was broad enough to permit a pass-through of all PCM compensation-related expenses, including Incentive Plan payments. The 2007-2011 agreement expressly allowed a pass through of Incentive Plan payments. That agreement was approved by United’s then legal counsel.

3. During the years that the Incentive Plan existed, United (along with its sister mutuals Third and Mutual 50, and GRF), consistently took the position that it would not be directly involved with the retention, compensation, or management of PCM employees. While we and many past Boards did so upon advice of counsel and based on information provided by PCM, this fact makes it very difficult to argue now that we should have been provided with additional information.

4. Although not transparent, nor easy to understand, the Incentive Plan was developed in 1996 with the involvement of a professional consultant and in consultation with the Presidents of the corporations. The Incentive Plan was utilized by PCM on a company-wide basis, with every Division participating, and a large percentage of eligible PCM employees receiving Incentive Plan payments.

5. While the justification for some of the almost 1,000 Incentive Plan payments made between 1996 and 2007 may be subject to question, the Plan provided a process by which Plan payments were approved and evaluated, including an analysis as to whether financial savings or service

improvements had been achieved; and that process appears to have been followed by PCM and General Manager Milt Johns. Detailed records attest to the formal review and approval process followed by PCM.

The United Board has accepted that recommendation and has determined that it will not take any affirmative action with regard to the Incentive Plan based on the information known at this time. However, Independent Counsel's report did include some serious criticism of PCM's handling of the Incentive Plan and the controversy surrounding it, which the Board will summarize below.

Further, Independent Counsel was also critical of certain aspects of PCM's handling of the Incentive Plan, and for the fact that the Plan, over the years, grew to lack the transparency originally intended. While his criticisms did offset the findings above that illustrate that a claim should not be made against PCM, the criticisms are important to note and will assist the community in moving forward. These criticisms included the following:

1. During the years that the Incentive Plan was in effect, PCM did not disclose to the Presidents or the Boards of Directors the actual payments made under the Incentive Plan, even in an aggregate or general manner. With the typical turnover of Board members, this resulted in many Directors being unaware of the Plan's existence, let alone Plan payments. The lack of transparency can be explained in part by the unique history of the community and its "pass-through" management cost structure. However, a general disclosure of Plan payments to the Boards on an annual basis could have been made without adverse legal consequences.

2. PCM did not provide information to the Boards of Directors regarding consistent Incentive Plan payments to certain employees when reporting on PCM salary levels. Plan payments would have been relevant to an evaluation of whether PCM compensation levels were at, above, or below market rates. While the setting of salaries and compensation is a PCM issue, it is important in establishing and approving budgets that the Board have accurate and up to date information regarding staff compensation to assure itself that PCM compensation packages are competitive but consistent with market conditions.

3. Finally, Independent Counsel did have criticism of the manner in which PCM responded to questions and provided information regarding the Plan when it became controversial in late 2006. PCM resisted disclosing

details regarding the Plan and overstated the reasons for the Mutuals and GRF to remain “hands-off” with regard to PCM employee compensation issues. While this resistance to releasing information may have been in the context of threatened litigation by certain community members and directors, and was in general consistent with the historical “hands-off” approach endorsed by the Boards of Directors, based on the advice of counsel and PCM, this response by PCM fueled speculation and distrust. In addition, in these initial responses PCM misstated the degree to which the Plan results were reviewed by independent auditors. The Plan and Plan results were an internal PCM matter that was not reviewed or audited by the independent auditors who prepare our year-end audits.

The intense controversy over the Incentive Plan was and is real. While Independent Counsel did not find support for the “serious and profound fraud and abuse” alleged in the Third Mutual lawsuit, and does not recommend legal action due to the cost of litigation, the possibility of not prevailing in such litigation, and United’s exposure to additional liability inherent in this or any other litigation in which United would be involved, he did find that PCM failed to ensure that the Plan was administered in a transparent manner and that meaningful disclosures were made to the Boards as to Plan payments.

The shared management for the Laguna Woods Village communities and the unique “pass-through” of all management expenses has existed since the inception of the community almost fifty years ago. It was developed as a way to take advantage of the large economies of scale and has certain advantages. This system also requires meaningful financial oversight by the Boards of Directors, who are the stewards of the communities’ trust. The Boards necessarily rely on management to provide all relevant information so that they can provide that oversight. In regards to the Incentive Plan, PCM did not provide the Board(s) with all or some of the relevant information.

In the future, the United Board of Directors will be taking a more active role in annually receiving and reviewing information regarding management staff compensation, including salaries, benefits, and any and all incentive or bonus programs. A requirement that management provide this information so that the Board can carry out a meaningful review, without any adverse legal consequences, will be included in any future management agreements.

The Third lawsuit is now settled. Although United was not a party to that lawsuit, the investigation by Independent Counsel was an investment the Board

made in order to ensure that it completed a serious due diligence effort with regard to the Incentive Plan issue. This was important to assure the community that the Board took the issue very seriously. Having completed the investigation and received the report, the United Board is ready to put this matter behind it, learn from it, and move forward with what is important - continuing to maintain and enhance our property values and quality of life.