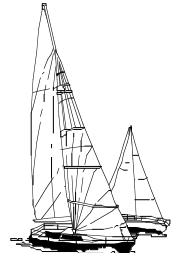


MONARCH BAY ASSOCIATION
BAY BANTER



SEPTEMBER 2007

MBA IN GOOD POSITION ON ALL 3 LAWSUITS

The Monarch Bay Association is a defendant in three very different lawsuits brought against the community. While none of the three suits have been concluded, the Association is in a good position on each. We expect our legal costs and the amount of Board time devoted to litigation to decrease significantly.

Moulton litigation

It has been four years since members of the Moulton family, the owners of the land under the MBA, sued to upset the existing arrangements between Monarch Bay, Avco Community Developers, Cal Western Home Financing and the Moulton Trust. Their stated goal was to extract substantially more money from their ownership in the land.

It has been an extremely costly and hard fought legal battle that culminated in a trial in June at which the MBA, as defendant, won on every ruling made by the court.

Tom Davis, our attorney, mailed copies of the court decision to each of our residents and will be at the annual meeting to answer questions about the case.

The court has indicated a willingness to consider our motion for recovery of some or all of our \$1-1/4 million in legal costs for successfully defending in this lawsuit. However, our recovery, if any, has been delayed by the plaintiffs' filing of an appeal.

The Moulton appeal was expected, given the way this case has been fought at every turn. Judge Stephen Sundvold, who ruled in our favor, is a respected jurist who handles complex litigation for the Superior Court and is rarely overruled by a higher court. Our attorney is confident that the appeal will not result in an overturning of the trial court's decision though it will hold up any recovery of our costs for up to two years.

The plaintiffs' attorney has made an initial unacceptable proposal for settling the case and resolving all outstanding issues but, so far, we are far apart on terms.

Estates at Monarch Cove case

We have been meeting, on-and-off for several years, with representatives of the Estates at Monarch Cove – the handful of homes near the road to the club. Our interest was to regain access for MBA residents to the county trail system that was cut off when the EMC's developer put up a wall around the property.

When the beach club relocated the driveway to the club last year, some of the residents of the EMC unexpectedly sued us, fearing that the change would interfere with their pedestrian access to the beach.

Wisely, the lawsuit has been put on hold while cool heads continue to try to work out a mutually beneficial arrangement.

First we proposed reciprocal access – for them to the beach and for MBA residents to the trail system. However, it became apparent that the EMC did not want passage of a large number of our residents through their private street.

Instead, they offered to pay us a substantial sum for an easement for their benefit to the beach through their existing pedestrian gate. After several rounds of negotiations, your board reached a tentative deal that was attractive to both sides.

However, the tentative agreement struck between our two communities may require the approval of the Moulton family as the owner of the land over which the EMC residents pass on the way to the beach. Since the Moultons recently lost a hard fought legal battle with the MBA, their cooperation in any arrangement that provides payments to the MBA is highly uncertain. We anticipate protracted negotiations before this lawsuit can finally be settled.

Robert Wolff et al litigation

Four families purchased one house in Monarch Bay and leased it to a tenant. Claiming the rules for resident beach club members were ambiguous, they requested four memberships for themselves in the club. When the club and MBA rejected the request as contrary to long standing written agreements that there can be only one residential membership per residence, the purchasers filed a lawsuit.

The plaintiffs sued the MBA, the beach club, and each of the MBA board members individually.

In addition to the four beach club memberships, they sought recovery of their purchase price, punitive damages and legal costs. They claimed breach of contract, negligent and intentional misrepresentation, concealment and other causes of action.

The judge assigned to the case threw out major portions of their suit. As the litigation – now in its third year - dragged on, one plaintiff family withdrew from of the suit.

The remaining three families gradually dropped all of their financial demands and their requests for multiple or group membership in the club. Eventually, the Wolffs, Colletts and Giddings authorized a settlement to end their lawsuit – agreeing that only one membership would be available to them.

The MBA board also agreed to the terms of the settlement with the condition that the individual board members should be voluntarily dismissed from the suit.

Before dropping their suit against the directors, the plaintiffs have demanded that each director sign a separate release that provides written assurances that the plaintiffs will not be counter-sued for malicious prosecution.

Board members believe that the plaintiffs' suit was without merit and that they had no legal basis for suing the directors in their individual capacities and therefore should dismiss them unconditionally. However, the board members are willing to sign mutual releases to put an end to this matter.

This unwarranted lawsuit is essentially over but at considerable cost to all of us. The association has been notified that CNA Insurance Company – which paid for most of the

association's defense - will not renew MBA's Directors and Officers liability coverage. Hereafter, our community's cost to obtain replacement insurance is expected to increase.

BOARD MEETING TO BE HELD OCTOBER 15TH

The next Board of Directors meeting will be held on Monday, October 15, 2007 at the Winterhalter home, 234 Monarch Bay Drive. Please note that the homeowner forum is held at 8:00 p.m. to provide homeowners the opportunity to discuss issues directly with the Board.

SAVE THE DATES

Please mark your calendars and save the dates:

Saturday, Sept. 29, 8:45 a.m.: Annual Meeting of the Members at South Shores Church

Sunday, Sept. 30, 5:30 p.m.: Community Club Cocktail Party at 117 Monarch Bay Dr.

The Monarch Bay Association will be holding their Annual Meeting of the Membership for the purpose of: electing three directors to serve three year terms on the Board of Directors, receiving outgoing President Leonard Kranser's State of the Association report and obtaining an update from our attorneys on the status of our lawsuits. We encourage you to attend and become informed. Please return your ballots directly to Accurate Voting Services in the envelopes provided in the mailing from their office in late August.

This year we will be meeting in a different room at South Shores Church. The Multi-Purpose room is below the main Sanctuary, which can be reached by elevator or stairs inside the main building.

The MBA Community Cocktail Party will be held the following evening, Sunday, September 30th, so save the weekend and join your neighbors at these two events.

STREET REPAIR WORK PLANNED

This year's street work will involve correction of the drainage problem that exists in front of 109, 195, 107 and 105 Monarch Bay Drive and will be limited to this specific area. 315 feet of curb and gutter will be removed and replaced. The following is the anticipated schedule of work:

Thursday, September 13, 2007: The site will be marked for construction with the Contractor. Prior to the start of construction the contractor will obtain a permit to dig from Underground Service Alert.

Wednesday, September 26, 2007: Work will begin and will continue for approximately 7 days. These residents will not have access to their residence without crossing steel plates for foot traffic only. During this period of time it will be necessary that residents in the area and further up the street turn off all sprinkler water so the area will remain dry. Thank you for your cooperation.

SOUTH COAST WATER DISTRICT SURVEY

Monarch Bay Homeowner Ed Labahn has volunteered to assist the South Coast Water District to perform a survey in Monarch Bay that identifies characteristics of the potable water service presently provided to each of the approximately 212 Monarch Bay residential customers by SCWD. A similar survey is also planned for the adjacent community of Three Arch Bay.

The survey, which will be performed by Ed Labahn with the support of water district staff, will identify the extent to which the homes of individual residential customers are currently equipped with water softeners, pools and spas. Such information, when available, would assist the district in making greater utilization of its existing sources of supply.

Ed will be distributing a written survey to each owner and asks for your cooperation to provide him the requested information as soon as possible, so the survey can be finalized in October.

RULE CHANGE - ARCHITECTURAL NON-COMPLIANCE

As proposed in the June Bay Banter, the Board unanimously adopted the following rule change at the September 10th Board meeting:

The Board has determined that it is reasonable and in the best interest of the Association to adopt a resolution and rule change of the Architectural Guidelines requiring that, in the event of an owner's noncompliance with the Association's Architectural Guidelines, the Board may, on behalf of the Association as Sublessor, exercise the right under the Governing Documents to stop that owner's construction and deny site access to the owner's general contractor, job superintendent, sub-contractor, supplier or their employees who are acting with the owner in violation of the Architectural Guidelines and any other relevant provision thereof, including preventing access through the Association's entrance gate, to the Association's property and the owner's property.

In the event such access to the owner's property is denied for the reasons set forth herein, neither the Association nor the Board of Directors will be responsible for any defaults, changes or costs the owners may experience from any third party due to the barred entry of such individuals or entities through the Association's entrance gate and to or onto the owner's property to perform work on the property that has not been approved by the Architectural Control Committee or the Board.

COMMUNITY REMINDERS

** Please remember the speed limit in Monarch Bay is 15 m.p.h. For the safety of everyone, please drive safely and slowly. We also continue to receive reports of children driving motorcycles and golf carts in the community, this is prohibited. Please talk with your children about their safety and your liability.*

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