

2. Because of the relationship involving some of the directors of FOA, Gordon Properties and CSI, the June 15 Order states in part that “CSI may not accept employment from [FOA] during the pendency of its bankruptcy case without the prior approval of this court with such notice as may be required by this court at that time.”

3. On October 3, 2012, an election took place and a new Board of Directors of FOA (“the Board”) was selected. The members of the Board are Bryan Sells (the president), Elizabeth Greenwell, Lindsay Wilson, Lucia Hadley, Jonathan Halls, Martina Hernandez and Bill Reichenbach.

4. On October 17, 2012, this Court entered an Order granting FOA permission to engage CSI on an interim basis to manage FOA on the same or substantially similar terms and conditions as FOA had previously engaged its former manager [Docket No. 293].

5. On November 15, 2012, at the Board’s meeting, the members discussed a draft Request for Proposal (“RFP”) for permanent, full-service management, which had been prepared by Joe Riviere, Temporary General Manager of FOA and CSI representative. After a discussion, Mr. Sells moved to table the matter in order to give the Board more time to review the proposed RFP. That motion passed without objection.

6. At the Board meeting on November 27, 2012, the Board modified the proposed RFP to reflect the suggestions of Mr. Halls. After further discussion, Mr. Sells moved to direct Mr. Riviere to send the RFP to seven companies. The motion passed on a voice vote 6 to 1. On that day, a letter

was sent to Cardinal Management, terminating the contract without cause on ninety days' notice.

7. On November 29, 2012, FOA sent RFPs to the following seven companies, asking for a response by December 15, 2012:

- a. Armstrong Management Services
- b. Cardinal Management Group
- c. CFM Community Management
- d. Community Management Corporation
- e. Sequoia Management Company
- f. Legum & Norman
- g. Condominium Services, Inc.

8. At the December 18, 2012, Board Meeting, Interim Manager Riviere reported that there had three responses to the RFP – two bids and one declination. Armstrong Management Services and CSI sent bids; Cardinal Management declined. The Board reviewed the bids received.

9. After discussion, Mr. Sells moved the Board to approve CSI as FOA's new management company, contingent upon approval by the Bankruptcy Court, and to refer the matter to the Special Litigation Committee ("SLC") (composed of William Reichenbach, Jane Brungart and Martina Hernandez) to finalize the terms of the proposed contract between FOA and CSI and to seek approval of the Bankruptcy Court. The motion passed 5 to 2, with Mr. Halls and Ms. Hadley voting against.

10. On December 26, 2012, CSI provided the proposed Service Agreement to the SLC for review and consideration, whereupon Mr. Reichenbach communicated with Eileen M. Johnson of the Whiteford, Taylor & Preston law firm, an experienced association and corporate governance

attorney, to review the terms of the proposed Service Agreement for the SLC, which she did.

11. As reflected in a memorandum dated January 9, 2013, Ms. Johnson made a number of suggestions and observations concerning the proposed Service Agreement. She recommended that a series of changes be made to the proposed Service Agreement following her review, including the following – all of which were ultimately made and all of which benefited FOA:

a. A reduction of the maximum amount of an unbudgeted expense that can be made without Board approval from \$5,000 to \$2,000;

b. The addition of a provision that the Board, not CSI, selects all contractors who will provide routine maintenance;

c. The reduction of the rate of increase in the annual service fee from 5.0% to 2.5%

d. A limitation imposed on the 5% late fee on any unpaid balance so that the unpaid balance excludes amounts in dispute;

e. The addition of a requirement that the payment of any hourly charges to CSI, in addition to the annual service fee, must have prior approval by the Board; and

f. An increase of the cap on CSI's liability to FOA pursuant to its various indemnity obligations from \$42,000 to \$100,000.

12. On January 15, 2013, the two members of the SLC, Ms. Hernandez and Ms. Brungardt met with Mr. Riviere of CSI to negotiate the terms of the Service Agreement. Later on January 15, 2013, at the Board's regular meeting,

Mr. Reichenbach moved to approve the CSI contract as negotiated by the SLC. The motion carried on a roll call vote 3 to 0, with Mr. Reichenbach, Mr. Halls and Ms. Hernandez voting in the affirmative and three other directors abstaining. The following day, one member of the SLC, Ms. Brungart, asked that the SLC and CSI continue their negotiations.

13. On January 23, 2013, the SLC, Ms. Wilson and Donald F. King, Esquire met with Ms. Johnson to renegotiate the final terms of the Service Agreement. The end result of all of the negotiations concerning the Service Agreement was that each of the changes to the contract which had been recommended by Ms. Johnson, described in paragraph 11, was incorporated in the final draft.

14. At the Board meeting held on February 19, 2013, Mr. Sells moved to approve the CSI Service Agreement. The motion passed 4 to 3. Mr. Sells, Ms. Greenwell, Ms. Wilson and Mr. Reichenbach voted for the motion; Ms. Hernandez, Ms. Hadley and Mr. Halls voted against. A copy of the CSI Service Agreement and its exhibit is submitted herewith as Attachment 1.

15. The terms of the Service Agreement are fully consistent with industry norms. As shown in Attachment 2, the declaration of Ms. Johnson who negotiated the Service Agreement on behalf of the SLC, its terms are reasonable, certainly within the bounds of good practices by owners' associations and were negotiated at arms' length and in good faith.

CERTIFICATE OF SERVICE

I hereby certify that on March 12, 2013, I filed the foregoing using the Clerk's CM/ECF system, which will provide notice to all counsel of record.

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