

BY-LAWS
OF
CARRIAGE LANE HOMEOWNERS ASSOCIATION

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OF
CARRIAGE LANE HOMEOWNERS ASSOCIATION

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BY-LAWS
OF
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ARTICLE I

GENERAL PLAN OF OWNERSHIP

Section 1. Name. The name of the corporation is CARRIAGE LANE HOMEOWNERS ASSOCIATION, hereinafter referred to as the "Association". The principal office of the Association shall be located in Orange County, California.

Section 2. Application. The provisions of these By-Laws are applicable to the planned residential development known as Carriage Lane, located in the City of Anaheim, County of Orange, State of California (the "Project"). All present and future owners and their tenants, future tenants, employees, and any other person that might use the facilities of the Project in any manner, are subject to the regulations set forth in these By-Laws and in the Additional Declaration of Covenants, Conditions, Restrictions and Reservation of Easements for Carriage Lane (the "Additional Declaration" herein) recorded or to be recorded in the Office of the Orange County Recorder and applicable to the Project. The mere acquisition or rental of any Lot in the Project or the mere act of occupancy of any Lot in the Project will signify that these By-Laws are accepted, ratified, and will be complied with.

Section 3. Meaning of Terms. The following terms, as used in these By-Laws shall have the same meanings as are applied to such terms in the Declaration: "Additional Declaration", "Annual Assessments", "ARC", "Association", "Board", "Capital Improvement Assessments", "Close of Escrow", "Common Area", "Common Expenses", "Family", "Grantor", "Improvement", "Lot", "Master Association", "Master Declaration", "Member", "Mortgage", "Mortgagee", "Owner", "Person", "Phase I", "Project", "Reconstruction Assessments" and "Special Assessments".

ARTICLE II

VOTING BY ASSOCIATION MEMBERSHIP

Section 1. Voting Rights. The Association shall have two (2) classes of voting Membership, as follows:

Class A. Class A Members shall originally be all Owners with the exception of Grantor for so long as there exists a Class B Membership. Class A Members shall be entitled to one (1) vote for each Lot owned as further provided in the Additional Declaration.

Class B. The Class B Member shall be Grantor. The Class B Member shall be entitled to three (3) votes for each Lot owned by Grantor, provided that the Class B Membership shall cease and be converted to Class A Membership on the happening of either of the following events, whichever occurs earlier:

(1) When the total votes outstanding in the Class A Membership, inclusive of votes attributable to any property annexed to the Project, equal the total votes outstanding in the Class B Membership; or

(2) Two (2) years from the date of original issuance of the most recently issued Public Report for a phase of the overall Project.

Section 2. Majority of Quorum. Unless otherwise expressly provided in these By-Laws or the Additional Declaration, any action which may be taken by the Association may be taken by a majority of a quorum of the Members of the Association.

Section 3. Quorum. Except as otherwise provided in these By-Laws, the presence in person or by proxy of at least fifty-one percent (51%) of the voting power of the Membership of the Association shall constitute a quorum of the Membership. Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum.

Section 4. Proxies. Votes may be cast in person or by proxy. Proxies must be in writing and filed with the Secretary at least twenty-four (24) hours before the appointed time of each meeting. Every proxy shall be revocable and shall automatically cease after completion of the meeting for which the proxy was filed.

Section 5. Election of Delegates. Members shall elect, by secret written ballot, a Delegate to act on their behalf at meetings of the Master Association as provided in the Master Declaration. Each Delegate shall be a Member of the Association and the Master Association, and a Delegate shall be elected at each annual meeting of the Members or at a special meeting of the Members held for such purpose. Each Delegate shall hold office until his successor has been elected or until his death, resignation, removal or judicial adjudication of mental incompetence. The term of office of the Delegate elected at the first annual meeting and the term of office of each Delegate elected to fill a vacancy created by the expiration of the term of office of the respective past Delegate shall be one (1) year. The term of office of any Delegate elected to fill a vacancy created by the resignation, death or removal of his predecessor shall be the balance of the unserved term of his predecessor. For so long as there exists a Class B membership, the Delegate shall be elected only in accordance with the special election procedure set forth in Article IV, Section 5(b) of these By-Laws, and such Delegate may be removed from office prior to the expiration of his term of office only by the vote or written petition signed by at least a simple majority of the voting power residing in Members other than Grantor.

ARTICLE III

ADMINISTRATION

Section 1. Association Responsibilities. In accordance with the provisions of the Additional Declaration, the Association shall have the responsibility of administering

the Project, approving the annual budget, establishing and collecting all assessments authorized under the Additional Declaration, and arranging for overall architectural control of the Project.

Section 2. Place of Meetings of Members. Meetings of the Members shall be held on the Project or such other suitable place in Orange County as proximate thereto as practicable and convenient to the Members as may be designated by the Board of Directors.

Section 3. Annual Meetings of Members. The first annual meeting of Members shall be held within forty-five (45) days after fifty-one percent (51%) of the escrows for the sale of all of the Lots in the Project have closed or within six (6) months after the Close of Escrow for the sale of the first Lot in Phase I of the Project, whichever occurs first. Thereafter, the annual meetings of the Association shall be held on or about the anniversary date of the first annual meeting. At each annual meeting there shall be elected by ballot of the Members a Board of Directors, in accordance with the requirements of Section 5 of Article IV of these By-Laws. The Members may also transact such other business of the Association as may properly come before them. Each first Mortgagee of a Lot in the Project may designate a representative to attend all annual meetings of the Members.

Section 4. Special Meetings of Members. It shall be the duty of the President to call a special meeting of the Members (1) as directed by resolution of a majority of a quorum of the Board, (2) upon receipt of a written request by the Association's Delegate to the Master Association, or (3) upon receipt by the Secretary of a petition signed by Members representing at least twenty-five percent (25%) of the total voting power of the Association or by at least fifteen percent (15%) of the voting power residing in Members other than Grantor. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice, unless by consent of those Members present, in person or by proxy, representing at least eighty percent (80%) of the voting power of the Association. Each first Mortgagee of a Lot in the Project may designate a representative to attend all special meetings of the Members.

Section 5. Notice of Meetings of Members. It shall be the duty of the Secretary to mail a notice of each annual or special meeting of Members, stating the purpose thereof as well as the day, hour and place where it is to be held, to each Member of record and to each first Mortgagee of a Lot which has filed a written request for notice with the Secretary, at least ten (10) but not more than thirty (30) days prior to such meeting. The notice may set forth time limits for speakers and nominating procedures for the meeting. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be considered notice served, forty-eight (48) hours after said notice has been deposited in a regular depository of the United States mail. Such notice shall be posted in a conspicuous place on the Common Area, and such notice shall be deemed served upon a Member upon posting if no address has been then furnished the

Secretary. The Board of Directors may fix a date in the future as a record date for the determination of the Members entitled to notice of and to vote at any meeting of Members. The record date so fixed shall not be more than thirty (30) days nor less than ten (10) days prior to the date of the meeting. When a record date is so fixed, only Members of record on that date shall be entitled to notice of the meeting, notwithstanding any transfer of or issuance of Membership certificates on the books of the Association after the record date.

Section 6. Adjourned Meetings. If any meeting of Members cannot be organized because a quorum is not present, the Members who are present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which meeting the quorum requirement shall be the presence in person or by proxy of the Members holding at least twenty-five percent (25%) of the voting power of the Association. Such adjourned meetings may be held without notice thereof as provided in this Article III, provided that notice is given by announcement at the meeting at which such adjournment is taken. If a meeting is adjourned for more than thirty (30) days, notice of the adjourned meeting shall be given in the manner provided in Section 5 of this Article III.

Section 7. Order of Business. The order of business at all meetings of the Members shall be as follows: (a) roll call to determine the voting power represented at the meeting; (b) proof of notice of meeting or waiver of notice; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) reports of committees; (f) election of inspector of election (at annual meetings or special meetings held for such purpose); (g) election of Directors (at annual meetings or special meetings held for such purpose); (h) election of Delegate (at annual meetings or special meetings held for such purpose); (i) unfinished business; and (j) new business. Meetings of Members shall be conducted by the officers of the Association, in order of their priority.

Section 8. Action Without Meeting. Any action, which under the provisions of the California Corporations Code may be taken at a meeting of the Members, may be taken without a meeting if authorized by a writing signed by all of the Members who would be entitled to vote at a meeting for such purpose, and filed with the Secretary.

Section 9. Consent of Absentees. The transactions of any meeting of Members, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the Members not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 10. Minutes, Presumption of Notice. Minutes or a similar record of the proceedings of meetings of Members, when signed by the President or Secretary, shall be presumed truthfully to evidence the matters set forth

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therein. A recitation in the minutes of any such meeting that notice of the meeting was properly given shall be prima facie evidence that such notice was given.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. Number and Qualification. The property, business and affairs of the Association shall be governed and managed by a Board of Directors composed of three (3) Persons, each of whom, except for those appointed and serving as first Directors, must either be a resident Owner of a Lot in the Project, or an agent of Grantor for so long as Grantor owns a Lot in the Project. The Board of Directors may increase, by resolution, the authorized number of Directors; provided that the Members shall have the sole right to elect the new Directors. Directors shall not receive any salary or compensation for their services as Directors, unless such compensation is first approved by the vote or written consent of Members representing at least a majority of both the Class A and Class B voting power; provided, however, that (1) nothing herein contained shall be construed to preclude any Director from serving the Association in some other capacity and receiving compensation therefor, and (2) any Director may be reimbursed for his actual expenses incurred in the performance of such Director's duties.

Section 2. Powers and Duties. The Board of Directors has the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these By-Laws directed to be exercised and done exclusively by the Members. The Board of Directors shall not enter into any contract for a term in excess of one (1) year, without the vote or written consent of the Members representing at least a majority of the Class A and Class B voting power, except for (1) any contract with a public utility company (such as Southern California Edison Company) which requires a term in excess of one (1) year, (2) a management contract the terms of which have been approved by the Veterans Administration or the Federal Housing Administration, and (3) prepaid casualty or liability insurance policies of not more than three (3) years duration provided that the policies permit short-term cancellation by the Association.

Section 3. Special Powers and Duties. Without prejudice to such foregoing general powers and duties and such powers and duties as are set forth in the Additional Declaration, the Board of Directors is vested with, and responsible for, the following powers and duties:

(a) To select, appoint, and remove all officers, agents, and employees of the Association, to prescribe such powers and duties for them as may be consistent with law, with the Articles of Incorporation, the Additional Declaration and these By-Laws; to fix their compensation and to require from them security for faithful service when deemed advisable by the Board.

(b) To conduct, manage and control the affairs and business of the Association, and to make and enforce such

rules and regulations therefor consistent with law, with the Articles of Incorporation, the Additional Declaration and these By-Laws, as the Board may deem necessary or advisable.

(c) To change the principal office for the transaction of the business of the Association from one location to another within the County of Orange, as provided in Article I hereof; to designate any place within said County for the holding of any annual or special meeting or meetings of Members consistent with the provisions of Article III, Section 2 hereof; and to adopt and use a corporate seal and to alter the form of such seal from time to time, as the Board, in its sole judgment, may deem best, provided that such seal shall at all times comply with the provisions of law.

(d) With the approval of Members representing at least two-thirds (2/3rds) of the Class A voting power of the Association, to borrow money and to incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

(e) To fix and levy from time to time Annual Assessments, Special Assessments, and Reconstruction Assessments upon the Members, as provided in the Additional Declaration; to fix and levy from time to time in any fiscal year Capital Improvement Assessments applicable to that year only for capital improvements; to determine and fix the due date for the payment of such assessments, and the date upon which the same shall become delinquent; provided, however, that such assessments shall be fixed and levied only to provide for the payment of the Common Expenses of the Association and of taxes and assessments upon real or personal property owned, leased, controlled or occupied by the Association, or for the payment of expenses for labor rendered or materials or supplies used and consumed, or equipment and appliances furnished for the maintenance, improvement or development of such property or for the payment of any and all obligations in relation thereto, or in performing or causing to be performed any of the purposes of the Association for the general benefit and welfare of its Members, in accordance with the provisions of the Additional Declaration. The Board of Directors is hereby authorized to incur any and all such expenditures for any of the foregoing purposes and to provide, or cause to be provided, adequate reserves for replacements as it shall deem to be necessary or advisable in the interest of the Association or welfare of its Members. The funds collected by the Board of Directors from the Members, attributable for replacement reserves, for maintenance, recurring less frequently than annually, and for capital improvements, shall at all times be held in trust for the Members and shall not be commingled with other assessments collected from the Members. Disbursements from such trust reserve fund shall be made only in accordance with the provisions of the Additional Declaration. Such Annual Assessments, Reconstruction Assessments, Special Assessments and Capital Improvement Assessments shall be fixed in accordance with the provisions of the Additional Declaration. Should any Member fail to pay such Assessments before delinquency, the Board of Directors in its discretion is authorized to enforce the payment of such delinquent assessments as provided in the Additional Declaration.

(f) To enforce the provisions of the Additional Declaration covering the Project, these By-Laws or other agreements of the Association.

(g) To contract for and pay for, as reasonably necessary, fire, casualty, errors and omissions, blanket liability, malicious mischief, vandalism and other insurance, insuring the Members, the Association, the Board of Directors and other interested parties, in accordance with the provisions of the Additional Declaration, covering and protecting against such damages or injuries as the Board deems advisable (which may include without limitation, medical expenses of persons injured on the Common Area). The Board shall review, not less frequently than annually, all insurance policies and bonds obtained by the Board on behalf of the Association.

(h) To contract for and pay maintenance, gardening, utilities, materials and supplies, and services relating to the Common Area and to employ personnel necessary for the operation of the Project, including legal and accounting services, and to contract for and pay for Improvements on the Common Area.

(i) To delegate its powers according to law, and subject to the approval of the Members, to adopt these By-Laws.

(j) To grant easements where necessary for utilities and sewer facilities over the Project to serve the Project.

(k) To fix, determine and name from time to time, if necessary or advisable, the public agency, fund, foundation or corporation which is then or there organized or operated for charitable purposes, to which the assets of this Association shall be distributed upon liquidation or dissolution, according to the Articles of Incorporation of the Association. The assets so distributed shall be those remaining after satisfaction of all just debts and obligations of the Association, and after distribution of all property held or acquired by the Association under the terms of a specific trust or trusts.

(l) To adopt such rules and regulations as the Board may deem necessary for the management of the Project, which rules and regulations shall become effective and binding after (1) they are adopted by a majority of the Board at a meeting called for that purpose, or by the written consent of such number of Directors attached to a copy of the rules and regulations of the Association, and (2) they are posted in a conspicuous place in the Common Area. Such rules and regulations may concern, without limitation, use of the Common Area; signs; parking restrictions, minimum standards of property maintenance consistent with the Additional Declaration and the procedures of the ARC; and any other matter within the jurisdiction of the Association as provided in the Additional Declaration; provided, however, that such rules and regulations shall be enforceable only to the extent that they are consistent with the Additional Declaration, the Articles of Incorporation and these By-Laws.

(m) To keep, or cause to be kept, a complete record of all acts and corporate affairs of the

Association and to present a statement thereof to the Members at the annual meeting of the Members and at any other time that such statement is requested by at least ten percent (10%) of the Members who are entitled to vote.

(n) To appoint a Membership Committee composed of at least one (1) Director and at least one (1) Association Member at large. The Membership Committee shall be responsible for contacting all purchasers of Lots in the Project as soon as any transfer of title to a Lot is discovered. The Membership Committee shall further attempt to establish initial contact with all Members who are delinquent in the payment of any assessments or other charges due the Association.

(o) To sell property of the Association, provided, however, that the prior vote or written approval of Members entitled to cast at least two-thirds (2/3rds) of each class of the voting power of the Association must be obtained to sell during any fiscal year property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

Section 4. Management Agent. On or before the date of the first annual meeting of the Members of the Association, the Board of Directors may appoint for the Association a professional management agent at a compensation established by the Board to perform such duties and services as the Board shall authorize, including but not limited to, the duties listed in Section 3 of this Article IV.

Section 5. Election and Term of Office.

(a) At the first annual meeting of the Members, and thereafter at each annual meeting of the Members, new Directors shall be elected by secret written ballot by a majority of Owners as provided in these By-Laws, and all positions on the Board of Directors shall be filled at that election. In the event that an annual meeting is not held, or the Board is not elected thereat, the Board may be elected at any special meeting of the Members held for that purpose. Each Director shall hold office until his successor has been elected or until his death, resignation, removal or judicial adjudication of mental incompetence. The term of office of each Director elected at the first annual meeting and the term of office of each Director elected to fill a vacancy created by the expiration of the term of office of the respective past Director shall be one (1) year. The term of office of each Director elected to fill a vacancy created by the resignation, death or removal of his predecessor shall be the balance of the unserved term of his predecessor. Any person serving as a Director may be re-elected, and there shall be no limitation on the number of terms during which he may serve. Each Member may accumulate his votes for the election and removal of Directors as provided in this Article IV. At any election of the Board, each Member may give one or more candidate for Director a number of votes equal to the share of the voting power as set forth in the Additional Declaration, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (1)

notice is given for an election of Directors of the Board and (2) upon such date the Members other than Grantor do not have a sufficient percentage of the voting power of the Association to elect at least one Director through the foregoing cumulative voting procedure, such notice shall also provide for the following special election procedure. Election of one Director shall be apportioned entirely to the Members other than Grantor. Any Person shall be an eligible candidate for the special election upon receipt by the Secretary of a Declaration of Candidacy, signed by the candidate, at any time prior to the election. Such election shall be by secret ballot unless a majority of the Members other than the Grantor determine otherwise. The person receiving a majority of the votes cast by the Members other than Grantor shall be elected a Member of the Board in a co-equal capacity with all other Directors. The remaining Directors on the Board shall be elected through the customary cumulative voting procedure outlined above.

Section 6. Books, Audit. The Board of Directors shall cause to be maintained a full set of books and records showing the financial condition of the affairs of the Association in a manner consistent with generally accepted accounting principles, and at no greater than annual intervals shall obtain an independent certified audit of such books and records. A copy of each such audit shall be delivered to a Member within thirty (30) days after the completion of such audit upon written request from a Member. A balance sheet and an audited operating (income) statement for the Association shall be distributed to each Member (and to any institutional first Mortgagee on a Lot in the Project upon request) as follows:

(a) An initial balance sheet and an initial operating statement as of an accounting date which shall be the last day of the month closest in time to six (6) months following the date of closing of the first sale on a Lot to a Member, within sixty (60) days of such accounting date;

(b) Thereafter, an annual balance sheet and an annual operating statement as of the last day of the Association's fiscal year, within ninety (90) days of such accounting date.

The operating statement for the first six (6) months accounting period referred to in (a) above shall include a schedule of assessments received or receivable itemized by Lot number and by the name of the person or entity assessed. All books, records and papers of the Association shall be made available for inspection and copying by any Member or his duly appointed representative at the principal office of the Association or at such other place within the Project as the Board may prescribe. The Board shall establish reasonable rules with respect to (1) notice to be given to the custodian of the records by the Member desiring to make the inspection, (2) hours and days of the week when such an inspection may be made and (3) payment of the cost of reproducing copies of documents requested by a Member. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association, and the physical properties owned or controlled by the Association. The right of the inspection by a Director shall include the right to make extracts and copies of documents.

Section 7. Vacancies. Vacancies in the Board of Directors caused by any reason other than the removal of

a Director by a vote of the Members of the Association shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum; and each person so elected shall be a Director until a successor is elected at the next annual meeting of the Members of the Association, or at a special meeting of the Members called for that purpose. A vacancy or vacancies shall be deemed to exist in case of death, resignation, removal or judicial adjudication of mental incompetence of any Director, or in case the Members fail to elect the full number of authorized Directors at any meeting at which such election is to take place.

Section 8. Removal of Directors. At any regular or special meeting of the Members duly called, any one or more of the Directors may be removed with or without cause by a majority vote of the Members of the Association, and a successor may then and there be elected to fill the vacancy thus created. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting. If more than one Director is to be removed at any one time, each Member may accumulate his votes and vote for or against such removal of one or more of the Directors in the number of votes equal to his share of the voting power as set forth in the Additional Declaration, multiplied by the number of Directors sought to be removed. Where the entire Board of Directors is not removed at one time, no Director shall be removed if the number of votes cast against his removal exceeds the quotient arrived at when the total number of Lots in the Project is divided by one (1) plus the authorized number of Directors. If any or all of the Directors are so removed, new Directors may be elected at the same meeting. Notwithstanding the foregoing, any Director who has been elected to office solely by the votes of Members other than Grantor pursuant to Section 5 of this Article IV may be removed from office prior to the expiration of his term of office only by the vote of at least a simple majority of the voting power residing in Members other than Grantor.

Section 9. Organization Meeting of Board. The first regular ("organization") meeting of a newly elected Board of Directors shall be held within ten (10) days of election of the Board, at such place as shall be fixed and announced by the Directors at the meeting at which such Directors were elected, for the purpose of organization, election of officers and the transaction of other business. No notice shall be necessary to the newly elected Directors in order legally to constitute such meeting; provided that (1) a majority of the whole Board shall be present when the time and place are announced at such meeting of the Members, and (2) the meeting is held on the same day and at the same place as the meeting of the Members at which the newly constituted Board was elected.

Section 10. Regular Meetings of Board. Regular meetings of the Board of Directors shall be open to all Members; provided that Members who are not Directors may not participate in any deliberations or discussions at such regular meetings unless expressly so authorized by a vote of a

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majority of a quorum of the Board of Directors. Regular meetings may be held at such time and place within the Project as shall be determined, from time to time, by a resolution adopted by a majority of a quorum of the Directors; provided, however, that such meetings shall be held no less frequently than quarterly. Notice of the time and place of regular meetings of the Board of Directors shall be given to each Director, personally or by mail, telephone or telegraph, at least seventy-two (72) hours prior to the date named for such meeting, and shall be posted at a prominent place or places within the Project.

Section 11. Special Meetings of Board. Special meetings of the Board of Directors shall be open to all Members; provided, that Members who are not Directors may not participate in any deliberations or discussions at such special meetings, unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Special meetings may be called by the President or by any two (2) Directors. At least seventy-two (72) hours notice shall be given to each Director, personally or by mail, telephone or telegraph, which notice shall state the time, place (as hereinafove provided) and the purpose of the meeting, and shall be posted at a prominent place or places within the Common Area. If served by mail, each such notice shall be sent, postage prepaid, to the address of each Director reflected on the records of the Association, and shall be deemed given, if not actually received earlier, at 5:00 o'clock p.m. on the second day after it is deposited in a regular depository of the United States mail as provided herein. Whenever any Director has been absent from any special meeting of the Board, an entry in the minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such Director, as required by law and as provided herein.

Section 12. Waiver of Notice. Before or at any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board shall be a waiver of notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting. The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present, and if, either before or after the meeting, each of the Directors not present signs such a written waiver of notice, a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the records of the Association or made a part of the minutes of the meeting.

Section 13. Quorum and Adjournment. Except as otherwise expressly provided herein, at all meetings of the Board of Directors, a majority of the Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors, there is less than a quorum present, the majority of those

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may adjourn the meeting from time to time. At any such adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice. The Board may, with the approval of a majority of a quorum of the Directors, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association or may become involved and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

Section 14. Fidelity Bonds. The Board of Directors may require that all officers and employees of the Association handling or responsible for Association funds shall furnish adequate fidelity bonds. The premiums on such bonds shall be paid by the Association.

Section 15. Committees. The Board of Directors by resolution, may from time to time designate such committees as it shall desire, and may establish the purposes and powers of each such committee created. The resolution designating and establishing the committee shall provide for the appointment of its members, as well as a chairman, shall state the purposes of the committee, and shall provide for reports, termination, and other administrative matters as deemed appropriate by the Board.

ARTICLE V

OFFICERS

Section 1. Designation. The principal officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer and an Assistant Secretary, and such other officers as in their judgment may be necessary. Officers other than the President need not be Directors. The office of Secretary and Treasurer may be held by the same Person, but the office of President and Secretary may not be held by the same Person.

Section 2. Election of Officers. The officers of the Association shall be elected annually by the Board of Directors at the Organization Meeting of each new Board of Directors, and each officer shall hold his office at the pleasure of the Board of Directors, until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified to serve.

Section 3. Removal of Officers. Upon an affirmative vote of a majority of the entire Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors called for such purpose. Any officer may resign at any time by giving written notice to the Board or to the President or Secretary of the Association. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and unless otherwise specified in said notice, acceptance of such resignation by the Board shall not be necessary to make it effective.

Section 4. Compensation. Officers, agents, and employees shall receive such reasonable compensation for their services as may be authorized or ratified by the Board; provided, however, that no officer shall receive any compensation for services performed in the conduct of the Association's business unless such compensation is approved by the vote or written consent of Members representing at least a majority of both the Class A and Class B voting power; and provided further, that (1) nothing herein contained shall be construed to preclude any officer from serving the Association in some other capacity and receiving compensation therefor, and (2) any officer may be reimbursed for his actual expenses incurred in the performance of his duties. Appointment of any officer, agent, or employee shall not of itself create contractual rights of compensation for services performed by such officer, agent, or employee. Notwithstanding the foregoing, no officer, employee or director of Grantor or any affiliate of Grantor may receive any compensation.

Section 5. President. The President shall be the chief executive officer of the Association. He shall preside at all meetings of the Association and of the Board of Directors. He shall have all of the general powers and duties which are usually vested in the office of the President of a corporation, including but not limited to the power, subject to the provisions of Article IV, Section 15, to appoint committees from among the Members from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Association. The President shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business of the Association. The President shall be ex officio a member of all standing committees, and he shall have such other powers and duties as may be prescribed by the Board of Directors or these By-Laws of the Association.

Section 6. Vice President. The Vice President shall take the place of the President and perform his duties whenever the President shall be absent, disabled, refuses or is unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other member of the Board to so do on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors or these By-Laws of the Association.

Section 7. Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the Association at the principal office of the Association or at such other place as the Board of Directors may order. The Secretary shall keep the seal of the Association in safe custody and shall have charge of such books and papers as the Board of Directors may direct; and the Secretary shall, in general, perform all of the duties incident to the office of Secretary. The Secretary shall give, or cause to be given, notices of meetings or the Members of the Association and of the Board of Directors required by these By-Laws or by law to be given. The Secretary shall maintain a record book of Members, listing the names and addresses of the Members as furnished the Association, and such books shall be changed only at such time as satisfactory evidence of a change in ownership of a Lot is presented to the Secretary. The Secretary shall perform such other duties as may be prescribed by the Board of Directors.

Section 3. Treasurer. The Treasurer shall have responsibility for Association funds and securities and shall be responsible for keeping, or causing to be kept, true and accurate accounts, tax records and business transactions of the Association, including accounts of all assets, liabilities, receipts and disbursements in books belonging to the Association. The Treasurer shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time to time be designated by the Board of Directors. The Treasurer shall disburse the funds of the Association as may be ordered by the Board of Directors, in accordance with the Additional Declaration, shall render to the President and Directors, upon request, an account of all of his transactions as Treasurer and of the financial conditions of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these By-Laws.

ARTICLE VI

OBLIGATIONS OF MEMBERS

Section 1. Assessments.

(a) All Members are obligated to pay, in accordance with the provisions of the Additional Declaration, and the Master Declaration, all assessments imposed by the Association and the Master Association, to meet their respective Common Expenses.

(b) All delinquent assessments shall be enforced, collected or foreclosed in the manner provided in the Additional Declaration and the Master Declaration, as applicable.

Section 2. Maintenance and Repair.

(a) Every Member must perform promptly, at his sole cost and expense, all maintenance and repair work on his Lot, as required under the provisions of the Additional Declaration. As further provided in the Additional Declaration, all plans for alterations and repair of Improvements on the Lots within the Project must receive the prior written consent of the ARC. The ARC shall establish reasonable procedures for the granting of such approval, in accordance with the Additional Declaration.

(b) As further provided in the Additional Declaration, each Member shall reimburse the Association for any expenditures incurred in repairing or replacing any portion of the Common Area owned by the Association, which are damaged through the fault of such Member. Such expenditures shall include all court costs and reasonable attorneys' fees incurred in enforcing any provision of these By-Laws or the Additional Declaration.

ARTICLE VII

AMENDMENTS TO BY-LAWS

These By-Laws may be amended by the Association by the vote or written consent of Members representing at least (1) a majority of the voting power of each class of the Members, and (2) a majority of the voting power of the Association residing in Members other than Grantor; provided that the specified percentage of each class of the Members necessary to amend a specific Section or provision of these By-Laws shall be not less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision. The prior written approval of each institutional holder of a first deed of trust lien of record made in good faith and for value on a Lot in the Project must be secured before any material amendment to these By-Laws may take effect, which adversely affects the rights of any such institutional holder, and this sentence may not be amended without such prior written approval. The term "institutional holder" as used herein shall mean a Mortgagee which is a bank or savings and loan association or established mortgage company, or other entity chartered under federal or state laws, any corporation or insurance company, or any federal or state agency.

ARTICLE VIII

MORTGAGEES

Section 1. Notice to Association. A Member who mortgages his Lot shall notify the Association through the Manager, or through the Secretary of the Association or the Board of Directors in the event there is no Manager, of the name and address of his Mortgagee; and the Association shall maintain such information in a book entitled "Mortgagees of Lots." Any such Member shall likewise notify the Association as to the release or discharge of any such Mortgage.

Section 2. Notice of Unpaid Assessments. The Board of Directors of the Association shall at the request of a Mortgagee of a Lot, report to such Mortgagee any unpaid assessments due from the Owner of such Lot, in accordance with the provisions of the Additional Declaration.

ARTICLE IX

CONFLICTING PROVISIONS

In case any of these By-Laws conflict with any provisions of the laws of the State of California, such conflicting By-Laws shall be null and void upon final court determination to such effect, but all other By-Laws shall remain in full force and effect. In case of any conflict between the Articles and these By-Laws, the Articles shall control; and in the case of any conflict between the Additional Declaration and these By-Laws, the Additional Declaration shall control.

ARTICLE X

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Except to the extent that such liability or damage or injury is covered by insurance proceeds, the Board of Directors may authorize the Association to pay expenses incurred by, or to satisfy a judgment or fine rendered or levied against, a present or former Director, officer, committee member, or employee of the Association in an action brought by a third party against such Person, whether or not the Association is joined as a party defendant, to impose a liability or penalty on such Person for an act alleged to have been committed by such Person while a Director, officer, committee member or employee; provided, the Board of Directors determines in good faith that such Director, officer, or employee was acting in good faith within what he reasonably believed to be the scope of his employment or authority and for a purpose which he reasonably believed to be in the best interests of the Association or its Members. Payments authorized hereunder include amounts paid and expenses incurred in settling any such action or threatened action. The provisions of this Section shall apply to the estate, executor, administrator, heirs, legatees, or devisees of a Director, officer, committee member, or employee, and the term "Person" where used in the foregoing Section shall include the estate, executor, administrator, heirs, legatees, or devisees of such Person.

ARTICLE XI

MISCELLANEOUS

Section 1. Execution of Documents. The Board of Directors, except as in these By-Laws otherwise provided, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Association, and such authority may be general or confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent, committee member, or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 2. Inspection of By-Laws. The Association shall keep in its office for the transaction of business the original or a copy of these By-Laws as amended or otherwise altered to date, certified by the Secretary, which shall be open to inspection by the Members and all first Mortgagees in accordance with Article IV, Section 6(b) hereof.

Section 3. Fiscal Year. The fiscal year of the Association shall be determined by the Board of Directors, and having been so determined, is subject to change from time to time as the Board of Directors shall determine.

Section 4. Membership Book. The Association shall keep and maintain in its office for the transaction of business a book containing the name and address of each Member. Termination or transfer of ownership of any Lot by a Member shall be recorded in the book, together with the

date on which such ownership was transferred, in accordance with the provisions of the Additional Declaration.

ARTICLE XII

NOTICE AND HEARING PROCEDURE

In the event of an alleged violation of the Additional Declaration, these By-Laws or the rules and regulations of the Association adopted hereunder, and after written notice of such alleged failure is given to the Member ("respondent") alleged to be in default in the manner herein provided, or to the agent of the respondent, the Board of Directors shall have the right, after the alleged violator has been given an opportunity for an appropriate hearing, and upon an affirmative vote of a majority of all Directors on the Board to take any one or more of the following actions: (1) levy a Special Assessment as provided in the Declaration, (2) suspend or condition said Member's and his Family's right to the use of the Common Area facilities, (3) to suspend said Member's voting privileges as a Member, as further provided in the Additional Declaration, or (4) to record a notice of noncompliance in accordance with the terms of the Additional Declaration. Any such suspension shall be for a period of not more than thirty (30) days from any noncontinuing infraction, but in the case of a continuing infraction (including nonpayment of any assessment after the same becomes delinquent) may be imposed for so long as the violation continues. The failure of the Board or the ARC to enforce the rules and regulations of the Association, these By-Laws or the Additional Declaration shall not constitute a waiver of the right to enforce the same thereafter. The remedies set forth above and otherwise provided by these By-Laws or by law shall be cumulative and none shall be exclusive. However, any individual Member must exhaust all available internal remedies of the Association prescribed by these By-Laws, or by the rules and regulations adopted by the Association, before that Member may resort to a court of law for relief with respect to any alleged violation by another Member of any provision of the Additional Declaration, these By-Laws or the rules and regulations; provided, however, that the foregoing limitation pertaining to exhausting administrative remedies shall not apply to the Board or to any Member where the complaint alleges nonpayment of Annual Assessments, Capital Improvement Assessments or Reconstruction Assessments.