

BYLAWS

OF

CARMEL MOUNTAIN RANCH RESIDENTIAL COMMUNITY ASSOCIATION

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BYLAWS

OF

CARMEL MOUNTAIN RANCH RESIDENTIAL COMMUNITY ASSOCIATION

ARTICLE I

PLAN OF OWNERSHIP

Section 1.01. Name. The name of the corporation is CARMEL MOUNTAIN RANCH RESIDENTIAL COMMUNITY ASSOCIATION, a California nonprofit mutual benefit corporation, hereinafter; referred to as the "Association." The principal office of the Association shall be located in the County of San Diego, State of California, at such address as may be designated by the Board from time to time.

Section 1.02. Application. The provisions of these Bylaws are applicable to the multi-phased planned community development known as Carmel Mountain Ranch, located in the County of San Diego, State of California. All present and future Owners and their tenants, future tenants, employees, and any other person who might use the facilities of the Subject Property in any manner, are subject to the regulations set forth in these Bylaws and in the Declaration of Covenants, Conditions and Restrictions for the Carmel Mountain Ranch Residential Community Association (the "Declaration") recorded or to be recorded in the Office of the San Diego County Recorder and Applicable to the Subject Property. The mere acquisition or rental of any Lot or Condominium in the Subject Property or the mere act of occupancy of any Lot or Condominium, will signify that these Bylaws are accepted, ratified, and will be complied with.

Section 1.03. Meaning of Terms. Unless otherwise expressly provided herein, the capitalized terms used in these Bylaws shall have the same meaning as are given to such terms in the Declaration.

ARTICLE II

VOTING BY ASSOCIATION MEMBERSHIP

Section 2.01. Voting. Members shall elect Delegates and Alternate Delegates to act on their behalf as set forth in Article IV of the Declaration, or as set forth in Section 2.04 of these Bylaws. The number of votes (i.e., voting power) held or represented by each Delegate, the manner in which Members shall elect. Delegates, and the manner in which each Delegate shall cast votes held by her or him, as set forth in the Declaration, are incorporated by reference herein.

Section 2.02. Meaning of Percentage Delegate Voting Power. As used in the Declaration and these Bylaws, any specified percentage "of Delegates" or "of the voting power of the Delegates" shall mean those Delegates representing such specified percentage of the voting power of the membership in the Association. Unless otherwise expressly provided in these Bylaws or the Declaration, any action which may be taken by the Association may be taken by Delegates representing a majority of the voting power of a quorum of the Delegates of the Association.

Section 2.03. Quorum. Except as otherwise provided in these Bylaws, the presence in person of the Delegates representing at least fifty-one percent (51%) of the voting power of the Association shall constitute a quorum of the membership. The Delegates 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 Delegates to leave less than a quorum. Delegates may only act personally at a meeting of the Delegates, or by written ballot, and may not act by proxy.

Any meeting of the Delegates, whether or not a quorum is present, may be adjourned from time to time for any reason by a vote of the Delegates representing a majority of the voting power of the Delegates present at the meeting, to another time not less than five (5) days nor more than thirty (30) days from the date of the original meeting. If the time and place of the adjourned meeting are announced prior to the adjournment of the original meeting, no notice of the adjourned meeting is required, provided that if a new date is fixed for the adjourned meeting after the adjournment of the original meeting, notice of the date, time and place of the adjourned meeting shall be given to Delegates in the manner prescribed in Section 3.05 of these Bylaws. Any business that might have been transacted at the original meeting may be transacted at the adjourned meeting. In the absence of a quorum, no business may be transacted at the meeting other than to adjourn the meeting to another time. If a meeting is adjourned because a quorum is not present, the quorum requirement at the adjourned meeting shall be twenty-five percent (25%) of the total voting power of the Association. If, however, such an adjourned meeting is attended by Delegates representing less than one third (1/3) of the voting power at the Association, notwithstanding the presence of a quorum, no matter may be voted upon except those matters regarding which notice of the general nature of the matter to be voted upon was given in accordance with Section 3.05 of these Bylaws.

The Delegates present at a duly called or held meeting may continue to transact business. until adjournment, notwithstanding the withdrawal of the voting power of enough Delegates to leave less than a quorum, provided that any action taken (other than adjournment) is approved by at least a majority of the voting power of Delegates required to constitute a quorum.

Section 2.04. Alternative Method of Electing Delegates and Alternate Delegates. In the event that a Sub-Association is created by a Supplemental Declaration covering any portion of the Subject Property, and the Supplemental Declaration does not specify the procedure for the election of a Delegate and an Alternate Delegate to the Association, or if a Delegate District is created for any portion of the Subject Property not subject to a Supplemental Declaration, Delegates and Alternate Delegates shall be elected in accordance with the following procedure.

(a) The Board of Directors shall appoint a nominating committee to solicit and accept nominations from among the Owners within the Delegate District. The Board shall adopt procedures that provide for a reasonable opportunity for nominees to solicit votes and to communicate their qualifications and reasons for candidacy to the Members within the Delegate District.

(b) The Delegate and the Alternate Delegate shall be elected by written ballot. The Board shall cause ballots to be distributed to each Member within the Delegate District who is entitled to vote. The ballot shall be given personally, or by first class, registered, or certified mail addressed to each Member at the address of the Lot or Condominium owned by the Member, or such other address as may be specified by the Member. Each ballot shall set forth: (a) the proposed action, (b) an opportunity to specify the Member's choice among the nominations, including an opportunity to write-in a name not listed among the nominations, and (c) the time by which the ballot must be received by the Board in order to be counted.

(c) A written ballot may not be revoked. Member, shall have the number of votes as set forth in Section 4.04(c) of the Declaration, and the nominee receiving the greatest number of votes cast shall be the Delegate for that Delegate District, and the nominee receiving the second greatest number of votes cast shall be the Alternate Delegate for that Delegate District. Delegates and Alternate Delegates shall serve for a concurrent term of one (1) year, or until such time as he has resigned or is removed; provided, however, that in the event the Board receives a petition signed by a majority of the Members within any such Delegate District requesting the removal of any Delegate or any Alternate Delegate elected pursuant to this Section 2.04, the Board shall cause another election to be held in the manner provided in this Section within ninety (90) days after receipt of any such petition to elect & new Delegate or Alternate Delegate, as the case may be.

(d) The Board of Directors shall have the power to adopt procedures by which a Delegate may call a special meeting of the Members owning Lots or Condominiums in his Delegate District for the purpose of obtaining instructions as to the manner in which the Delegate is to vote on any issue to be voted on by the Delegates.

Section 2.05. Alternate Delegates. An Alternate Delegate shall have and shall exercise the powers and duties of the Delegate for that Delegate District whenever the Delegate is absent, disabled or unable to act. A request by a Delegate to the Alternate Delegate to act on the Delegate's behalf may be made either orally or in writing. An Alternate Delegate may not act on behalf of a Delegate unless expressly authorized by the Delegate, unless the Delegate is unable to communicate the authorization due to injury, disease or other cause, provided, however, that an Alternate Delegate may Act on behalf of a Delegate at any meeting of Delegates without prior Authorization if the Delegate is absent from the meeting.

If at a duly constituted meeting of the Members in the Delegate District, the Members have instructed their Delegate as to the manner in which he is to vote on any issue to be voted upon by the Delegates, the Alternate Delegate representing that Delegate District shall cast the voting power which he represents in the manner instructed by the Members. In the absence of any such instructions, the Alternate Delegate shall have the authority to cast the votes which he represents in the manner as he may, in his sole discretion, deem appropriate.

ARTICLE III

ADMINISTRATION

Section 3.01. Association Responsibilities. In accordance with the provisions of the Declaration, the Association shall have the responsibility of administering the Association Properties, approving the annual budget; establishing and collecting all Assessments authorized pursuant to the Declaration, and arranging for the overall architectural control of the Subject Property.

Section 3.02. Place of Meetings of Delegates. Meetings of the Delegates shall be held in the Subject Property or such other suitable place in San Diego County, as proximate thereto as practicable and convenient to the Delegates, as may be designated by the Board of Directors from time to time.

Section 3.03. Annual Meetings of Delegates. The first annual meeting of Delegates shall be held within the time limitations set forth in Section 6.01(j) of the Declaration. Thereafter, the annual meetings of Delegates shall be held on or about the anniversary date of the first annual meeting. Each first Mortgagee of a Lot or Condominium in the subject Property may designate a representative to attend all annual meetings of the Delegates. The annual meetings of the Delegates shall be open to attendance by all Members, and Mortgagee representatives to the extent of the permissible capacity of the meeting room.

Section 3.04. Special Meetings of Delegates. It shall be the duty of the President to call a special meeting of the Delegates, as directed by resolution of a majority of a quorum or the Board of Directors, or upon a petition being presented to the Secretary signed by Delegates representing at least five percent (5%) of the total voting power of the Association. The notice of any special meeting shall be given within twenty (20) days after adoption of such resolution or receipt of such petition and shall state the time and place of such meeting and the purpose thereof the special meeting shall be held not less than thirty five (35) days nor more than ninety (90) days after adoption of the resolution or receipt of the petition. No business shall be transacted at a special meeting except as stated in the notice. Each first Mortgagee of a Lot or Condominium in the Subject Property may designate a representative to attend all special meetings of the Delegates. The special meeting of the Delegates shall be open to attendance by all Members, and Mortgagee representatives to the extent of the permissible capacity of the meeting room.

Section 3.05. Notice of Meetings. It shall be the duty of the Secretary to send a notice of each annual or special meeting by first-class mail, at least thirty (30) days and not more than ninety (90) days prior to such meeting, stating the purpose thereof as well as the day, hour and place where it is to be held, to each Delegate of record, the Class B Members (if Directors are to be elected) and to each first Mortgagee of a Lot or Condominium, which Mortgagee has filed a written request for notice with the Secretary. The notice may set forth time limits for speakers and nominating procedures for the meeting. The notice of any meeting at which Directors are to be elected shall include the names of all those who are nominees at the time the notice is given. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be

considered served forty-eight (48) hours after the notice has been deposited in a regular depository of the United States mail. The notice shall be posted in a conspicuous place on the Subject Property, and the notice shall be deemed served upon any Delegate upon posting if no address for the Delegate has been furnished to the Secretary.

Section 3.06. Special Notice Requirements. Approval by the Delegates of any of the following proposals, other than by unanimous approval of those Delegates entitled to vote, shall not be valid unless the general nature of the proposal was stated in the notice or in any written waiver of the notice:

- (i) removing a Director without cause;
- (ii) filling a vacancies on the Board;
- (iii) amending the Articles;
- (iv) approving a contract or transaction between the Association and any entity in which a Director has a material financial interest;
- (v) electing to wind up and dissolve the Association; or
- (vi) approving a plan of distribution of assets, other than money, not in accordance with the liquidation rights of any class of Members (applicable only if the Association is in the process of winding up and there is more than one class of membership outstanding at the time).

Section 3.07. Waiver of Notice or Consent. The transactions of any meeting of Delegates, however called or noticed, and wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if (1) a quorum is present, and (2) either before or after the meeting, each Delegate entitled to vote, not present in person, signs a written waiver of notice, a consent to the holding of the meeting, or an approval of the minutes of the meeting. The waiver of notice, consent, or approval need not specify either the business to be transacted or the purpose of any meeting of Delegates, except that if action is taken or proposed to be taken for approval of any of those matters specified in Section 3.06 of these Bylaws, the waiver of notice, consent, or approval shall state the general nature of the proposal. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance of a Delegate at a meeting shall constitute a waiver of notice, unless the Delegate objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Also, attendance at a meeting is not a waiver of any right to object to the consideration of matters required to be included in the notice of the meeting but not so included, if that objection is expressly made at the meeting.

Section 3.08. Proof of Membership and Record Date. No person shall exercise the rights of membership in the Association until satisfactory proof of membership has been furnished to the Association. No Delegate shall be entitled to cast a

vote on behalf of a Member with respect to any Lot or Condominium acquired by such Member after the applicable record date. Such proof may consist of either a duly-executed and acknowledged grant deed or title insurance policy showing that the person has an ownership interest in a Lot or Condominium that would entitle the person to membership in the Association as provided in Section 4.02 of the Declaration. Such deed or policy shall be deemed conclusive proof of the person's membership in the absence of a conflicting claim based on a later deed or policy.

For the purpose of determining the Members entitled to notice of any meeting, to vote, or to exercise any other rights in respect of any lawful action, the Board may fix, in advance, a record date as follows: (a) the record date for notices shall be not more than ninety (90) nor less than ten (10) days before the date of the meeting; (b) the record date for voting shall not be more than sixty (60) days before the date of the meeting or before the date on which the first written ballot is mailed or solicited; and, (c) the record date for any other action shall not be more than sixty (60) days before the date of such action. If no record date is fixed by the Board, the record date shall be determined in accordance with California Corporations Code Section 7611. A person holding a membership as of the close of business on the record date shall be a member of record.

Section 3.09. Action by Written Ballot. Any action that may be taken at any meeting of the Delegates, except the election of Directors, may be taken by written ballot if the following requirements are satisfied:

(i) The Association distributes a written ballot to each Delegate entitled to vote on the matter. The ballot shall be given personally, or by first class, registered, or certified mail addressed to the Delegate at the address appearing on the books of the Association or given by the Delegate to the Association for the purpose of notice. The ballot shall provide a reasonable time within which to be returned. If ballots are distributed to 10 or more Delegates, and the Association has 100 or more Delegates, the requirements of California Corporations Code Section 7514 shall be satisfied.

(ii) Each ballot shall set forth: (a) the proposed action, (b) an opportunity to specify approval or disapproval of any proposal, (c) the time by which the ballot must be received by the Association in order to be counted, (d) the number of responses needed to meet the quorum requirement, and (e) the percentage of approvals necessary to approve the proposed action.

(iii) The proposed action shall be considered approved by written ballot if (a) within the time period specified the number of votes cast by ballot equals or exceeds the quorum required to be present at a meeting authorizing the action, and (b) the number of approvals equals or exceeds the number of votes that would be required for approval at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot.

(iv) A written ballot may not be revoked.

Section 3.10. Order of Business. The order of business at all meetings of the Delegates shall be as follows: (a) appointment of inspector of election by the Board; (b) roll call to determine the voting power represented at the meeting; (c) proof of notice of meeting or waiver of notice; (d) reading of the minutes of the preceding meeting; (e) reports of officers; (f) reports of committees; (g) election of Directors (at annual meetings or special meetings held for such purpose); (h) unfinished business; and (i) new business.

Section 3.11. Minutes, Presumption of Notice. Minutes or a similar record of the proceedings of meetings of Delegates, when signed by the President or Secretary, shall be presumed truthfully to evidence the matters set forth 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 4.01. Number and Qualification. The property, business and affairs of the Association shall be governed by a Board of Directors composed of five (5) persons, each of whom, except for those appointed and serving as first Directors, must either be a resident Owner of a Lot or Condominium in the Subject Property, or an agent of Declarant or an agent of a Participating Builder, for so long as Declarant or a Participating Builder owns a Lot or Condominium in the Subject Property or the Annexable Area. The authorized number of Directors may be changed by a duly adopted amendment to the Bylaws. Directors shall not receive any salary or compensation for their services as Directors, unless such compensation is first approved by the vote of Delegates representing at least a majority of the voting power of the Association; 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 the Director's duties.

The first Directors shall be appointed by Declarant as soon as practicable after the incorporation of the Association, and shall hold office until the first annual meeting of the Delegates as specified in Section 3.03 of these Bylaws. At the first annual meeting, the Delegates shall elect Directors to fill all the positions on the Board.

Section 4.02. Nomination. Except for the first Directors selected by Declarant as provided in Section 4.01 of these Bylaws, nomination for election to the Board shall be made by a nominating committee consisting of three persons. The nominating committee shall consist of a chairman, who shall be a Director, and two other persons who may either be members of the Association or representatives of Declarant. Each member of the nominating committee shall be appointed by the Board to serve for a period of one year, and vacancies thereon shall be filled by the Board. The nominating committee may make as many nominations as it desires, but not less than the number of positions to be filled.

Notwithstanding the foregoing, any Member or Delegate present in person at a meeting in which a Director or Directors

are to be elected may place a name in nomination at the meeting prior to the vote. If the Association has 500 or more members, the nomination requirements of California Corporations Code §7521 shall be satisfied.

The Board shall adopt procedures that provide for a reasonable opportunity for nominees to communicate their qualifications and reasons for candidacy to the Members and to solicit votes, and for a reasonable opportunity for all Members to choose among the nominees. Without authorization of the Board, no Association funds may be expended to support a nominee for Director after there are more nominees than can be elected.

Section 4.03. Election and Term of Office.

(a) At the first meeting of the Delegates, and thereafter at each annual meeting of the Delegates, new Directors shall be elected by secret written ballot by the Delegates as provided in these Bylaws. 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 Delegates 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. Subject to the right of Declarant and Participating Builders to exercise a Class B vote pursuant to Section 4.04 of the Declaration, with respect to Directors elected at the first annual meeting of the Delegates, the three (3) Directors receiving the highest number of votes shall each be elected for a term of two (2) years, and the two (2) Directors receiving the next highest number of votes shall each be elected for a term of one (1) year. At each annual meeting, new Directors shall be elected to fill vacancies created by resignations or expirations of the terms of past Directors. Following the first annual meeting, the term of office for each Director elected to fill a vacancy created by the expiration of the term of office of the respective past Director shall be for two (2) years. 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 reelected, and there shall be no limitation on the number of terms during which he may serve. Each Delegate may accumulate his votes for any candidate for the Board if the candidate's name has been placed in nomination prior to the voting and if such Delegate, or any other Delegate, has given notice at the meeting prior to the voting of the Delegate's intention to cumulate votes. If a Delegate cumulates his votes, the Delegate may cast a number of votes equal to the Delegate's share of the voting power, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (i) notice is given for an election of Directors of the Board and (ii) upon such date Declarant and any Participating Builders are entitled to exercise a majority of the voting power of the Association, and (iii) upon such date the Delegates casting votes attributable to Members other than Declarant and any Participating Builders do not have a sufficient percentage of the voting power of the Association to elect a number of Directors representing at least twenty percent (20%) [though not less than one (1)] of the entire Board through the foregoing cumulative voting procedure, then such notice shall also provide for the following special election procedure. Election of Directors

shall be first apportioned to Delegates representing the voting power of Members other than Declarant and any Participating Builders until the aggregate number of Directors on the Board elected by Delegates casting votes attributable to Members other than Declarant and any Participating Builders represents at least twenty percent (20%) [though not less than one (1)] of the entire Board [e.g., the Delegates shall ensure that at least one (1) Director is an Owner not connected directly or indirectly with Declarant or any Participating Builders ("nonaffiliated Owner") for so long as a majority of the voting power of the Association is attributable to Lots or Condominium owned by Declarant and Participating Builders). Any non-affiliated Owner 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 Delegates representing the voting of the Members other than the Declarant and Participating Builders determine otherwise. The non-affiliated Owners receiving the greatest number of votes cast by Delegates representing the voting power of Members other than Declarant and any Participating Builders shall be elected to the Board in a co-equal capacity with all other Directors. The remaining members on the Board shall be elected through the customary cumulative voting procedure outlined above.

Section 4.04. Vacancies. Vacancies on the Board of Directors caused by any reason other than the removal of a Director by a vote of the Delegates of the Association shall be filled by a 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 Delegates of the Association, or at a special meeting of the Delegates called for that purpose. A vacancy shall be deemed to exist in case of death, resignation, removal or judicial adjudication of mental incompetence of any Director, or in case the Delegates fail to elect the full number of authorized Directors at any meeting at which the election is to take place. Any vacancy not filled by the Directors may be filled by vote of the Delegates at a special meeting of the Delegates called for that purpose.

Section 4.05. Removal of Directors. At any regular or special meeting of the Delegates duly called, any one or more of the Directors may be removed prior to the expiration of the Director's term of office with or without cause by a vote of Delegates representing a majority of the total voting power of the Association (including votes attributable to Declarant and Participating Builders). Any Director whose removal has been proposed by the Delegates shall be given an opportunity to be heard at the meeting. If more than one Director is to be removed at anyone time, each Delegate may accumulate his votes and vote for or against such removal of one or more of the Directors, exercising the number of votes equal to his share of the voting power as set forth in the 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 or not consenting in writing to such removal, would be sufficient to elect the Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Directors authorized at the time of the Director's most recent election were then being elected. If

any or all of the Directors are so removed at a meeting, new Directors may be elected at the same meeting. Notwithstanding the foregoing, any Director who has been elected to office solely by the votes at Delegates representing the voting power of Members other than Declarant or Participating Builders pursuant to Section 4.03(b) of this Article IV may be removed from office prior to the expiration of his term of office only by the vote of Delegates representing a simple majority of the voting power residing in Members other than Declarant and any Participating Builders; and, in the event of such removal, the Director's successor shall be elected in the same manner as the removed Director, pursuant to the provisions of Section 4.03(b) hereof.

Section 4.06. 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, the Declaration or by these Bylaws directed to be exercised and done exclusively by the Members acting through the Delegates. The Board of Directors shall not enter into any contract for a term in excess of one (1) year, without the vote of Delegates representing a majority of the voting power of the Association, except for (i) any contract of a minimum term with a public utility company, regulated by the Public Utilities Commission, which requires a minimum term in excess of one (1) year; (ii) a Management contract the terms of which have been approved by the Veterans Administration or the Federal Housing Administration; and (iii) 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 4.07. Special Powers and Duties. Without prejudice to such foregoing general powers and duties and such powers and duties as are set forth in the Declaration, the Board of Directors is vested with the following powers and duties:

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

(b) The power and duty to conduct, manage and control the affairs and business of the Association, and to adopt and enforce the Board Rules and Regulations therefor consistent with law as well as Architectural Standards as provided in Section 7.03 of the Declaration (also referred to herein as "Use Guidelines" and "Design Guidelines"). The Board Rules and Regulations shall become effective and binding after (1) they are adopted by a majority of the entire Board at a meeting called for that purpose; and, (2) they are posted in a conspicuous place in the Association Properties.

(c) The power but not the duty to change the principal office for the transaction of the business of the Association from one location to another within the County of San Diego, as provided in Article I hereof; to designate any place within such County for the holding of any annual or special meeting or meetings of Delegates consistent with the provisions of Section 3.02 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) The power and duty to enforce the provisions of the Declaration, the Board Rules and Regulations, these Bylaws, and other agreements of the Association.

(e) The power but not the duty to act as the management agent for any Sub-Association within the Subject Property and to charge a reasonable fee for such management services.

Section 4.08. 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.

All books, records and papers of the Association shall be made available for inspection and copying by any Member; prospective purchasers of a Lot or Condominium; and any holder, insurer or guarantor of any first Mortgage, or their duly appointed representative at the principal place of business of the Association or at such other place within the Subject Property as the Board may prescribe. The Board shall establish reasonable rules with respect to (i) notice to be given to the custodian of the records by the Members desiring to make the inspection, (ii) hours and days of the week when such inspection may be made and (iii) payment of the cost of reproducing copies of documents requested. 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 inspection by a Director shall include the right to make extracts and copies of documents.

Section 4.09. Organization Meeting. 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 time and 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 the Membership meeting, and (2) the organization meeting is held on the same day and at the same place as the meeting of Delegates at which the newly constituted Board was elected.

Section 4.10. Regular Meetings. Regular meetings of the Board of Directors shall be open to the Members and may be held at such time and place within the Subject Property 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 four (4) days prior to the date named for such meeting, and shall be posted at a prominent place or places within the Subject Property. Members in attendance who are not Directors may not participate in any deliberation or discussion, unless expressly so authorized by the vote of a majority of a quorum of the Directors.

Section 4.11. 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, if he is absent or refuses to act, by the Vice President) or by any two (2) Directors. At least four (4) days notice shall be given to each Director, personally or by mail, telephone or telegraph, which notice shall state the time, place (as hereinabove provided) and the purpose of the meeting, and shall be posted at a prominent place or places within the Subject Property. If served by mail, each such notice shall be sent, postage prepaid, to the address reflected on the records of the Association, and shall be deemed given, if not actually received earlier, at 5:00 P.M. on the second day after it is deposited in a regular depository of the United States mail. 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 the meeting was given to such Director, as required by law and as provided herein.

Section 4.12. Waiver of Notice. Before or at any meeting of the Board of Directors, any Director may, in writing, waive personal notice of the 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 personal notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice to Directors 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 (1) a quorum is present, (2) notice to the Members of such meeting was posted as provided in Section 4.10 of this Article IV, and (3) either before or after the meeting, each of the Directors not present signs 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 4.13. Action Without Meeting. Any action required or permitted to be taken by the Board may be taken without a meeting, if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such Directors. An explanation of any action taken by unanimous written consent without a meeting shall be posted by the Board in a prominent place or places in the Subject Property within three (3) days after the written consents of all Directors have been obtained.

Section 4.14. 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 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, subject to the requirements of California Corporations Code Section 7211(a)(8).

A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, provided that any action taken or decision made is approved by at least a majority of the required quorum for that meeting. At any meeting of the Board of Directors, whether or not a quorum is present, the majority of those present may adjourn the meeting from time to time. Notice of the time and place of holding an adjourned meeting need not be given unless the original meeting is adjourned for more than twenty-four (24) hours. 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 is or may become involved, and careers 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 4.16. Fidelity Bonds. The Board shall obtain a Fidelity Bond which names the Association as insured or any person or entity handling the funds of the Association, including professional managers and their employees in an amount equal to at least the estimated maximum of funds, including reserve funds, in the custody of the Association or the management agent at any given time during the term of the Fidelity Bond. The Bond shall not be less than a sum equal to three (3) months aggregate assessments on all Lots and Condominiums on the Subject Property, plus the amount of reserve funds.

Section 4.17. Committees. The Board of Directors may, by resolution adopted by a majority of the number of Directors then in office (provided that a quorum is present) create from time to time 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, and shall state the purposes of the committee, and shall provide for reports, termination, and other administrative matters as deemed appropriate by the Board.

The Board may appoint one or more Directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board or in these Bylaws, shall have all the authority of the Board except with respect to:

(1) The approval of any action which also requires the approval of a majority of the voting power of the Delegates.

(2) The filling of vacancies on the Board or in any committee which has the authority of the Board.

(3) The fixing of compensation of the Directors for serving on the Board or on any committee.

(4) The amendment or repeal of Bylaws or the adoption of new Bylaws.

(5) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable.

(6) The appointment of committees of the Board or the members thereof.

(7) The expenditure of corporate funds to support a nominee for Director after there are more people nominated for Director than can be elected.

ARTICLE V

OFFICERS

Section 5.01. Designation. The principal officers of the

Association shall be the President, the Vice President, the Secretary, and the Treasurer, all of whom shall be elected or appointed 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. One Person may hold more than one office.

Section 5.02. 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 be disqualified to serve, or his successor shall be elected and qualified to serve.

Section 5.03. 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 such notice, acceptance of such resignation by the Board shall not be necessary to make it effective.

Section 5.04. 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 first approved by the vote of Delegates representing at least a majority of the voting power of the Association; provided, however, 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 such officer's 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 Declarant or a Participating Builder or any affiliate of Declarant or a Participating Builder may receive any compensation.

Section 5.05. 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. 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 Bylaws. The Master Architectural Committee shall not be deemed a "standing committee" under this Section 5.05. The President shall sign all leases, mortgages, deeds, and other instruments and shall co-sign all checks and promissory notes of the Association.

Section 5.06. Vice President. The Vice President shall take the place of the President and perform his duties whenever the President shall be absent, disabled or 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 do so 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 Bylaws.

Section 5.07. 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 of the Association and of the Board of Directors required by these Bylaws or by law to be given. The Secretary shall perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 5.08. Treasurer. The Treasurer shall be the chief financial officer of the Association and shall have responsibility for Association funds and securities and shall be responsible for keeping, or causing to be kept, full and accurate accounts of the properties, 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, 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 Bylaws. The Treasurer shall sign all checks and promissory notes of the Association.

ARTICLE VI

OBLIGATIONS OF MEMBERS

Section 6.01. Assessments.

(a) All Members are obligated to pay, in Accordance with the provisions of the Declaration, all Assessments imposed by the Association, to meet all expenses of the Association.

(b) All delinquent Assessments shall be enforced, collected or foreclosed in the manner provided in the Declaration.

Section 6.02. Payment of Common Assessments. All Common Assessments shall be due and payable to the Association by the Owners (including Declarant and Participating Builders) during the fiscal year, in advance, in monthly, quarterly, or semi-annual installments, or in such other manner or frequency as the Board may designate. Common Assessments for Annexed Property shall commence on the date set forth in Section 9.05 of the Declaration. In the event Common Assessments for Lots and Condominiums within the Subject Property are revised as authorized under the Declaration, the amount of any adjustment, whether an increase or a decrease, shall be payable or credited (as the case may be) in equal prorated installments for the remainder of the fiscal year; provided, however, that any amounts attributable for the period from the commencement of the revised Common Assessment until the date that notice of the revised Common Assessment is delivered to Owners, shall be payable or credited (as the case may be) on the date on which the next installment of Common Assessments is to be paid.

ARTICLE VII

AMENDMENTS TO BYLAWS

These Bylaws may be amended by the Association by the vote of Delegates representing at least fifty-one percent (51%) of the voting power of the Association; provided that the specified percentage of the Delegates necessary to amend a specific Section or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision; and provided, further, that these Bylaws may be amended by a majority of the entire Board, at any time prior to the close of escrow for the sale of the first Lot or Condominium in the Subject Property to a purchaser from Declarant or a Participating Builder. For so long as the Federal Housing Administration ("FHA") is insuring or has agreed to insure, or the Veterans Administration ("VA") is guaranteeing or has agreed to guarantee, first Mortgages on Lots or Condominiums in the Subject Property, all amendments to these Bylaws shall require written approval of FHA or VA, as applicable. The prior written approval of holders of sixty-seven percent (67%) of all first Mortgages on Lots and Condominiums in the Subject Property must be secured before any material amendment to these Bylaws affecting matters delineated in Section 12.04(d) (vi) of the Declaration may take effect, and this sentence may not be amended without such prior written approval. Notwithstanding the foregoing, if FHA, VA or a first Mortgagee who receives a written request from the Board to approve a proposed amendment or amendments to the Bylaws does not deliver a negative response to the Board within sixty (60) days of the mailing of such request by the Board, the FHA, VA or such first Mortgagee shall be deemed to have approved the proposed amendment or amendments.

ARTICLE VIII

MORTGAGEES

Section 8.01. Notice to Association. If requested by the Board, every Member who mortgages his Lot or Condominium shall notify the Association through its Manager, or through the Secretary if 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 and Condominiums". Any such Member shall likewise notify the Association as to the release or discharge of any such Mortgage.

Section 8.02. Notice of Unpaid Assessments. The Board of Directors of this Association shall at the request of a Mortgagee of a Lot or Condominium report any unpaid Assessments due from the Owner of such Lot or Condominium in accordance with the provisions of the Declaration.

ARTICLE IX

CONFLICTING PROVISIONS

In the event any of these Bylaws conflict with any provisions of the laws of the State of California, the conflicting Bylaws shall be null and void upon final court determination to that effect, but all other Bylaws shall remain in full force and effect. In the event of any conflict between the Articles of Incorporation and these Bylaws, the Articles of Incorporation shall control; and in the event of any conflict between the Declaration and these Bylaws, the Declaration shall control.

ARTICLE X

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Board of Directors may authorize the Association to pay expenses incurred by, or to satisfy a judgment or fine rendered or levied against, any present or former Director, officer, committee member, Delegate, employee or agent of the Association to the extent and under the circumstances provided in the Declaration.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Checks, Drafts and Documents. All checks, drafts or other orders for payments or money, notes or other evidences of indebtedness, issued in the name of or payable to the Association, shall be signed or endorsed by the President and Treasurer or in such manner as, from time to time, shall be determined by resolution of the Board of Directors.

Section 11.02. Execution of Documents. The Board of Directors may authorize any officer or agent 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 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 11.03. Inspection of Bylaws. The Association shall keep in its office for the transaction of business the original or a copy of these Bylaws as amended or otherwise altered to date, certified by the Secretary, which shall be open to inspection by the Delegates and the Members and all

holders, insurers and guarantors of first Mortgages at all reasonable times during regular office hours.

Section 11.04. 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 11.05. Membership Book. The Association shall keep and maintain in its office for the transaction of business a membership book containing the name and address of each Member. Termination or transfer of any membership shall be recorded in the book, together with the date on which the membership ceased or was transferred, in accordance with the provisions of the Declaration.

ARTICLE XII

NOTICE AND HEARING PROCEDURE

Section 12.01. Suspension of Privileges. In the event of an alleged violation of the Declaration, the Architectural Standards, these Bylaws or the Board Rules and Regulations, and after written notice of such alleged failure is delivered personally or mailed to the Member or any agent of the Member ("Respondent") alleged to be in default in the manner herein provided, by first-class mail or by certified mail return receipt requested, or both, the Board of Directors shall have the right, after affording the Respondent an opportunity for an appropriate hearing as hereinafter provided, and upon an affirmative vote of a majority of entire Board of Directors, to take anyone or more of the following actions: (1) levy a Reimbursement Assessment as provided in the Declaration; (2) suspend or condition the right of such Member to use any recreational facilities owned, operated or maintained by the Association; (3) suspend the Member's voting privileges as a Member, as further provided in the Declaration; or (4) record a Notice of Noncompliance encumbering the Lot or Condominium of the Respondent. Any such suspension shall be for a period of not more than thirty (30) days for 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 to enforce the Board Rules and Regulations, the Architectural Standards, these Bylaws or the Declaration shall not constitute a waiver of the right to enforce the same thereafter. The remedies set forth above and otherwise provided by these Bylaws shall be cumulative and none shall be exclusive. However, any individual Member must exhaust all available internal remedies of the Association prescribed by these Bylaws, or by the Board Rules and Regulations, before that Member may resort to a court of law for relief with respect to any alleged violation of the Declaration, the Use Guidelines, the Design Guidelines, these Bylaws or the Board Rules and Regulations by another Member, provided that the foregoing limitation pertaining to exhausting administrative remedies shall not apply to the Board, nor to any Member where the complaint alleges nonpayment of Common Assessments, Special Assessments, or Reimbursement Assessments.

Section 12.02. Written Complaint. A hearing to determine whether a right or privilege of the Respondent under the Declaration or these Bylaws should be suspended or conditioned, or whether a Reimbursement Assessment should be levied, shall

be initiated by the filing of a written complaint by any Member or by any officer or member of the Board of Directors with the President of the Association or other presiding member of the Board. The Complaint shall constitute a written statement of charges which shall set forth in ordinary and concise language the acts or omissions with which the Respondent is charged, and a reference to the specific provisions of the Declaration, these Bylaws or the Board Rules and Regulations which the Respondent is alleged to have violated. A copy of the Complaint shall be delivered to the Respondent in accordance with the notice procedures set forth in the Declaration, together with a statement which shall be substantially in the following form:

"Unless a written request for a hearing signed by or on behalf of the person named AS Respondent in the accompanying Complaint is delivered or mailed to the Board of Directors within fifteen (15) days after the Complaint, the Board of Directors may proceed upon the Complaint without a hearing, and you will have thus waived your right to a hearing. The request for a hearing may be made by delivering or mailing the enclosed form entitled 'Notice of Defense' to the Board of Directors at the following address:

You may, but need not, be represented by counsel at any or all stages of these proceedings. If you desire the name and addresses of witnesses or an opportunity to inspect any relevant writings or items on file in connection with this matter in the possession, custody or control of the Board of Directors, you may contact _____

_____."

The Respondent shall be entitled to a hearing on the merits of the matter if the Notice of Defense is timely filed with the Board of Directors. The Respondent may file a separate statement by way of mitigation, even if he does not file a Notice of Defense.

Section 12.03. Notice of Hearing. The Board shall serve a Notice of Hearing, as provided herein, on all parties at least ten (10) days prior to the hearing, if such hearing is requested by the Respondent. The hearing shall be held no sooner than twenty (20) days after the Complaint is mailed or delivered to the Respondent as provided in Section 12.02 of this Article XII. The Notice of Hearing shall be in substantially the following form, but may include other information:

"You are hereby notified that a hearing will be held before the Board of Directors of the Carmel Mountain Ranch Residential Community Association at _____ on _____ the hour of _____, regarding the charges made in the Complaint served upon you. You may be present at the

hearing; you may but need not be represented by counsel; you may present any relevant evidence, and will be given full opportunity to cross-examine all witnesses testifying against you. You are entitled to request the attendance of witnesses and the production of books, documents or other items by applying to the Board of Directors of the Association."

Section 12.04. Hearing. The hearing shall be held before the Board in executive session pursuant to the Notice of Hearing affording the Member a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of the delivery of the Notice of Hearing shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice together with a statement of the date and manner of delivery is entered by the officer or Director who mailed or delivered the notice. The notice requirement shall be deemed satisfied if the Respondent appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed. No action against the Respondent arising from the alleged violation shall take effect prior to the expiration of (i) forty-five (45) days after the Member's receipt of the Notice of Hearing, or (ii) thirty (30) days after the hearing required herein.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify as follows:

1. I am the duly elected and acting Secretary of CARMEL MOUNTAIN RANCH COMMUNITY ASSOCIATION, a California nonprofit mutual benefit corporation ("Association"); and,

2. The foregoing Bylaws comprising 21 pages; including this page, constitute the Bylaws of the Association which were duly adopted at the meeting of the Board of Directors of the Association held on the 23rd day of May, 1985.

IN WITNESS WHEREOF, I have hereunto subscribed my hand and affixed the seal of the Association this 30th day of May, 1985.

By signed
Secretary

[SEAL]