

**BYLAWS OF
SHADY CANYON COMMUNITY ASSOCIATION**

TABLE OF CONTENTS

	PAGE
ARTICLE I NAME AND LOCATION	1
1. Name and Location	1
ARTICLE II DEFINITIONS	1
1. Definitions	1
ARTICLE III MEMBERSHIP AND VOTING RIGHTS	1
1. Membership	1
2. Class of Membership	2
3. Assignment of Merchant Builder Voting Rights	4
4. Special Voting Procedures for Election of Directors	4
5. Vesting of Voting Rights	5
6. Adjustment of Voting Rights	5
7. Transfer	5
8. Proxies	5
9. Determination of Record Date	6
ARTICLE IV MEETINGS OF MEMBERS	7
1. Organizational and Annual Meetings	7
2. Special Meetings	7
3. Notice of Meetings	8
4. Quorum	9
5. Action Without Meeting	9
6. Meetings of the Members	10
7. Mortgagee Representation	10
8. Minutes, Presumption of Notice	10
ARTICLE V BOARD OF DIRECTORS: NOMINATION, ELECTION AND TERM OF OFFICE	11
1. Number and Qualifications of Directors	11
2. Nomination	11
3. Election of Directors and Term of Office	12

4. Cumulative Voting 13

5. Removal 13

6. Vacancies 14

7. Compensation of Directors 14

ARTICLE VI MEETINGS OF DIRECTORS 15

1. Regular and Special Meetings 15

2. Meetings of Directors 16

3. Rights of Members to Attend Board Meetings. 16

4. Minutes of Board Meetings 17

5. Action Without Meeting 17

6. Conduct of Meetings 17

7. Quorum 18

ARTICLE VII POWERS AND DUTIES OF THE BOARD OF DIRECTORS 18

1. Powers 18

ARTICLE VIII OFFICERS AND THEIR DUTIES 18

1. Enumeration and Qualifications of Officers 18

2. Election of Officers 18

3. Term 18

4. Special Appointments 19

5. Resignation and Removal 19

6. Vacancies 19

7. Multiple Offices 19

8. Duties 19

9. Compensation of Officers 20

ARTICLE IX COMMITTEES 21

1. Appointment of Committees 21

ARTICLE X INSPECTION OF BOOKS AND RECORDS 21

1. Availability of Books and Records 21

2. Rules Concerning Inspection 21

3. Inspection by Directors 22

ARTICLE XI NOTICE AND HEARING 22

1. Suspension of Privileges 22

2. Notice to Member 23

3. Hearing 23

4. Monetary Penalties 23

ARTICLE XII AMENDMENTS 24

1. Amendments to ByLaws 24

ARTICLE XIII CORPORATE SEAL 24

1. Seal 24

ARTICLE XIV MISCELLANEOUS 24

1. Director and Officer Liability 24

2. Indemnification of Directors and Officers 26

3. Fiscal Year 27

4. Checks and Drafts 27

5. Execution of Documents 27

6. Dissolution 27

7. Conflict 28

**BYLAWS OF
SHADY CANYON COMMUNITY ASSOCIATION**

ARTICLE I

NAME AND LOCATION

Section 1. Name and Location. The name of the corporation is SHADY CANYON COMMUNITY ASSOCIATION (hereinafter referred to as the "Master Association"). The principal office of the Master Association shall be located at the Community in the City of Irvine, County of Orange, State of California.

ARTICLE II

DEFINITIONS

Section 1. Definitions. Unless otherwise indicated, various capitalized terms used in these ByLaws are defined in that certain "Master Declaration of Covenants, Conditions and Restrictions, and Reservation of Easements for Shady Canyon" recorded on _____, 2001, as Instrument No. 20010_____, in the Official Records of Orange County, California, as same may be amended or restated from time to time, (hereinafter referred to as the "Master Declaration"), and shall have the same meaning herein as is ascribed to them in the Master Declaration. All of the terms and provisions of the Master Declaration are hereby incorporated herein by this reference.

ARTICLE III

MEMBERSHIP AND VOTING RIGHTS

Section 1. Membership. Every Owner (including Declarant and each Merchant Builder) shall be a Member of the Master Association. Each Class A Member's membership and the Class B Member's membership in the Master Association shall be

appurtenant to the Lot or Condominium owned by such Member and shall not be assignable, except to the person or entity to whom title to such Lot or Condominium has been transferred. Ownership of a Lot or Condominium shall be the sole qualification for Class A membership in the Master Association.

Section 2. Class of Membership. The Master Association shall have three (3) classes of voting membership, as follows:

Class A. Initially, the Class A Members shall be all of the Owners other than Declarant and the Merchant Builders. Upon the conversion of the Class B membership as provided below, Declarant and each Merchant Builder shall become a Class A Member as to those Lots and Condominiums which they own and which are subject to the levy of Assessments by the Master Association. The Class A Members who own a Lot or Condominium which is subject to the levy of Assessments are entitled to one (1) vote for such Lot or Condominium. When more than one (1) person holds an ownership interest in a Lot or Condominium, all such persons shall be Class A members. The vote for such Lot or Condominium shall be exercised as such Owners determine among themselves, but in no event shall more than one (1) vote be cast with respect to any Lot or Condominium. The Master Association shall recognize the vote cast by a co-Owner, unless another co-Owner shall cast a conflicting vote, in which case both votes shall be null and void and not recognized by the Master Association.

Class B. The Class B Member shall be Declarant and the Merchant Builders. Except as provided in Sections 3 and 4 below, each Class B Member shall be entitled to three (3) votes for each Lot or Condominium it owns in the Community which is subject to the levy of Assessments. The Class B membership shall cease and shall be converted to Class A

membership upon the happening of any of the following events, whichever occurs earliest:

(a) When seventy five percent (75%) of the estimated total number of Lots and Condominiums proposed for the overall Community (i.e., approximately four hundred [400] Lots and Condominiums times 75% equals approximately three hundred [300] Lots and Condominiums) have been conveyed to Class A Members;

(b) The fifth anniversary of the first Close of Escrow for the sale of a Lot or Condominium pursuant to the original issuance by the DRE of the most recently issued Final Subdivision Public Report for a Phase of the Community; or

(c) The fifteenth (15th) anniversary of the first Close of Escrow for the sale of a Lot or Condominium in the first Phase of the Community.

Class C. The Class C Member shall be the Declarant, without regard to whether Declarant is the Owner of a Lot or Condominium in the Community. The Class C Membership shall not be considered part of the voting power of the Master Association, and Declarant shall not be entitled to exercise any Class C vote except for the purpose of electing those members of the Board which the Class C Member is entitled to elect hereunder. The Class C Member shall be entitled to solely elect a majority of the members of the Board until the first to occur of the following events:

(a) When seventy five percent (75%) of the total number of Lots and Condominiums proposed for the overall Community (i.e., approximately four hundred [400] Lots and Condominiums times 75% equals approximately three hundred [300] Lots and Condominiums) have been conveyed to Class A Members;

(b) The fifth (5th) anniversary of the first Close of Escrow for the sale of a Lot or Condominium pursuant to the original issuance by the DRE of the most recently issued Final Subdivision Public Report for a Phase of the Community; or

(c) The fifteenth (15th) anniversary of the first Close of Escrow for the sale of a Lot or Condominium pursuant to the Final Subdivision Public Report issued by the DRE for the first Phase of the Community.

Unless a specific provision of the Master Declaration or the Articles requires the approval of a greater percentage of the voting membership, any action taken by the Master Association which must have the approval of the membership of the Master Association before being undertaken shall require the vote or written assent of both a majority of the Class B membership as well as a majority of the Class A membership, so long as both the Class A and Class B membership shall exist. Notwithstanding the foregoing, any action by the Master Association, pursuant to the Article in the Master Declaration entitled "Enforcement of Bonded Obligations" shall only require a majority of the voting power of the Owners, other than Declarant.

Section 3. Assignment of Merchant Builder Voting Rights. Unless otherwise expressly agreed to in a writing executed by Declarant and a Merchant Builder and such writing is delivered to the Secretary of the Master Association, each Merchant Builder hereby irrevocably assigns to Declarant all Class A and Class B voting rights to which such Builder would be entitled hereunder, and all such voting rights shall be exercised solely by Declarant, as Declarant may deem appropriate in its sole and absolute discretion.

Section 4. Special Voting Procedures for Election of Directors. So long as the Class B or Class C memberships shall

remain in effect, the Class A Members shall be entitled to elect to solely elect at least twenty percent (20%) of the members of the Board.

Section 5. Vesting of Voting Rights. The voting rights attributable to any Lot or Condominium in the Community as provided for herein shall not vest until the Assessments provided for in the Master Declaration have been levied by the Master Association against said Lot or Condominium.

Section 6. Adjustment of Voting Rights. The voting rights in the Master Association shall be adjusted on the first day of the month immediately following the first Close of Escrow for the sale of a Lot or Condominium in each subsequent Phase of the Community.

Section 7. Transfer. The Master Association membership held by any Owner of a Lot or Condominium shall not be transferred, pledged or alienated in any way, except as incidental to the sale of such Lot or Condominium and the membership shall be automatically transferred upon the sale of such Lot or Condominium. In the event of such sale, the Master Association membership may only be transferred, pledged or alienated to the bona fide purchaser or purchasers of the Lot or Condominium, or to the Mortgagee (or third-party purchaser) of such Lot or Condominium upon a foreclosure sale, deed in lieu or other remedy set forth in the Mortgage. Any attempt to make a prohibited transfer is void and will not be reflected in the books and records of the Master Association.

Section 8. Proxies. Votes may be cast in person or by proxy. Proxies must be filed with the Secretary before the appointed time for each meeting. Every proxy shall be revocable and shall automatically terminate upon the earliest of the following: (a) the conveyance by the Owner of his Lot or Condominium; (b) the date of automatic termination, if any, specified in the proxy, but

not to exceed three (3) years from the date of issuance of the proxy; or (c) eleven (11) months from the date of issuance of the proxy, if no automatic termination date is specified in the proxy. Any form of proxy or written ballot distributed to the membership of the Master Association shall afford an Owner the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon at the meeting for which said proxy was distributed, except it shall not be mandatory that a candidate for election to the Board be named in a proxy. The proxy or written ballot shall provide that, where the Owner specifies a choice, the vote shall be cast in accordance with that choice. In addition, the proxy shall also identify the person or persons authorized to exercise the proxy and the length of time it shall be valid.

Section 9. Determination of Record Date. In the event the Board does not fix a record date, the record date shall be determined in accordance with California Corporations Code Section 7611, as same may be amended, from time to time.

(a) For Notice. Except as otherwise provided in Subsection (b) below, the Board shall fix, in advance, a date as the record date for the purpose of determining the Members entitled to notice of any meeting of the Master Association at which Members are required or permitted to take action. Such record date shall not be more than ninety (90) days nor less than ten (10) days before the date of the meeting. If the Board fails to fix such record date, the record date for the purpose of determining the Members entitled to notice of any meeting of the Master Association shall be at 5:00 p.m. on the business day preceding the day on which notice is given. A determination of Members entitled to notice of a meeting of the Master Association shall apply to any adjournment of the

meeting, unless the Board fixes a new record date for the adjourned meeting.

(b) To Vote. The record date for the purpose of voting shall not be more than sixty (60) days before the date of the meeting. If the Board fails to fix a record date, Members on the day of the meeting who are otherwise eligible to vote are entitled to vote at the meeting of the Members, and in the case of an adjourned meeting, Members on the day of the adjourned meeting who are otherwise eligible to vote are entitled to vote at such adjourned meeting.

ARTICLE IV

MEETINGS OF MEMBERS

Section 1. Organizational and Annual Meetings. Regular meetings of Members of the Master Association shall be held not less frequently than once each calendar year at the time and place prescribed by these ByLaws. The first meeting of the Master Association, whether a regular or special meeting, shall be held not later than six (6) months after the first Close of Escrow for the sale of a Lot or Condominium in the Community. At such meetings there shall be elected, by secret written ballot of the Members, a Board in accordance with the requirements of the Article herein entitled "Board of Directors: Nomination, Election and Term of Office." The Members may also transact such other business of the Master Association as may properly come before them.

Section 2. Special Meetings. A special meeting of the Members of the Master Association shall be called by the Board upon:

(a) The vote for such meeting by a majority of a quorum of the Board;

(b) Receipt of a written request therefor signed by Members representing at least five percent (5%) of the total voting power of the Master Association;

(c) The rejection by the Board of a settlement offer as referenced in California Civil Code Section 1375(g)(1); or

(d) Any vote by a majority of a quorum of the Board to commence an action for damages pursuant to Section 1375(g)(2) of the California Civil Code.

The notice of any special meeting shall be given within five (5) days after such action by the Board or receipt of such petition. The Board shall cause the special meeting to be held not less than twenty (20) days nor more than ninety (90) days after such action by the Board or receipt of the written request for said meeting.

No business shall be transacted at a special meeting except as stated in the notice, unless by consent of a quorum of the Owners present, either in person or by proxy.

Section 3. Notice of Meetings. Written notice of each regular and each special meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting by mailing a copy of such notice by first class mail, postage prepaid, and/or by any other means approved by the Board which is reasonably calculated to provide notice of the Meeting (e.g., transmissions by email or by facsimile). Except in emergency situations, not less than thirty (30) days nor more than ninety (90) days notice of any meeting at which Members are required or permitted to take action shall be provided to each Member, addressed to the Member's address last appearing on the books of the Master Association or supplied by such Member to the Master Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and those matters

which the Board, at the time the notice is sent, intends to present for action by the Members, if any, but except as otherwise provided by law, any proper matter may be presented at the meeting for action.

Section 4. Quorum. The presence, in person or by proxy, of Owners holding at least thirty-three percent (33%) of the total voting power of the Master Association shall constitute a quorum for the transaction of business at all meetings. In the absence of a quorum at a Members' meeting, a majority of those present, in person or by proxy, may adjourn the meeting to another time, but may not transact any other business. An adjournment for lack of a quorum shall be to a date not less than five (5) days and not more than thirty (30) days from the original meeting date. Except as may otherwise be required pursuant to the Master Declaration, the quorum for such a meeting shall be at least twenty-five percent (25%) of the total voting power of the Master Association present, in person or by proxy. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting, or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed for regular meetings.

Section 5. Action Without Meeting. Except the election of Directors where cumulative voting is required and the consideration of the commencement of an action for damages which is subject to California Civil Code Section 1375, any other action which may be taken by the vote of Members at any regular or special meeting, as provided for hereinbelow, may be taken without a meeting if the Master Association distributes a written ballot to every Member entitled to vote on the matter. The ballot shall be given personally, or by first-class, registered or certified mail addressed to the address of the Member appearing on the books of

the Master Association. Such ballot shall set forth (i) each proposed action, (ii) an opportunity to specify approval or disapproval of each proposed action; (iii) a reasonable time within which to return the ballot to the Master Association pursuant to Section 7513 of the California Corporations Code, as same may be amended from time to time, in order to be counted; (iv) the number of responses needed to meet the quorum requirement; and (v) the percentage of approvals necessary to approve each proposed action. All such written ballots shall be filed with the Secretary of the Master Association and maintained in the corporate records. Approval by written ballot pursuant to this Section shall be valid only when the number of votes cast by ballot within the time period specified equals or exceeds the quorum required to be present at a meeting authorizing the action, and the number of approvals equals or exceeds the number of votes that would be required to approve at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot. A written ballot may not be revoked. Directors may not be elected by written ballot under this Section.

Section 6. Meetings of the Members. The meetings of the Members shall be held at the Community or as may be designated by the Board. All meetings of the Members shall be conducted in accordance with a recognized system of parliamentary procedure (e.g. Robert's Rules of Order) or such other parliamentary procedures as the Master Association may adopt.

Section 7. Mortgagee Representation. First Mortgagees shall have the right to attend all meetings of Members through a representative designated in writing and delivered to the Board.

Section 8. Minutes, Presumption of Notice. Minutes or a similar record of the proceedings of meetings of the Master Association, 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 V

BOARD OF DIRECTORS:

NOMINATION, ELECTION AND TERM OF OFFICE

Section 1. Number and Qualifications of Directors.

The affairs of the Master Association shall be managed by a Board consisting of either three (3) or five (5) Directors, each of whom, except for those appointed and serving as first Directors, must either be an Owner of a Lot or Condominium or an authorized agent and representative of Declarant or a Merchant Builder, so long as Declarant owns a Lot or Condominium in the Community or is entitled to annex any of the Annexable Property into the Community as provided in the Master Declaration. The Board shall initially consist of three (3) Directors who shall be appointed by Declarant as soon as practicable after the incorporation of the Master Association, and shall hold office until Directors are elected at the first annual meeting as provided herein.

Section 2. Nomination. Subject to the Declarant's Class C voting rights, the nomination for election to the Board shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chairman, who shall be a member of the Board, and two (2) or more Members of the Master Association. The Nominating Committee shall be appointed by the Board prior to each annual meeting of the Members to serve from the close of such annual meeting until the close of the next annual meeting, and such appointment shall be announced at each meeting. The Nominating Committee shall make as many nominations for election to the Board as it shall in its discretion determine, but not fewer than the

number of vacancies that are to be filled. Nominations may be made from among Members or non-Members so long as Declarant is entitled to annex any of the Annexable Property into the Community. Thereafter, nominations shall only be made from among Members.

The Board shall adopt procedures that provide for a reasonable opportunity for nominees to (i) communicate to the Members their qualifications and reasons for their candidacy; (ii) solicit votes; and (iii) meet with the Members.

Section 3. Election of Directors and Term of Office.

At the first annual meeting of the Master Association, the Members shall elect the Directors in accordance with the provisions of these ByLaws. The Directors elected by Declarant pursuant to the Declarant's Class C voting rights shall each serve for a term of two (2) years. The Director elected by the Class A Members who received the highest number of votes shall also be elected for a term of two (2) years. At such time as the Board votes to increase the number of Directors to five (5), the Board may appoint (2) Directors to fill the two (2) vacancies until the next annual meeting. At such next annual meeting, the three (3) Directors elected by Declarant pursuant to the Declarant's Class C voting rights, (or after the expiration of the Declarant's Class C voting rights, 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. The Board may, at any time (including prior to the first annual meeting) vote to increase the number of Directors from three (3) to five (5). At each annual meeting thereafter, successor Directors shall be elected for a term of two (2) years; provided however, the term of office for a Director elected to fill a vacancy created by the removal of his predecessor or for a Director appointed to fill any other vacancy shall be the balance of the unserved term. Any person serving as

a Director may be re-elected, and there shall be no limitation on the number of terms which a Director may serve.

Section 4. Cumulative Voting. Election to the Board shall be by secret written ballot. At such election, the Members may cast, with respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Master Declaration and these ByLaws. The persons receiving the largest number of votes shall be elected. Cumulative voting is required for all elections in which two (2) or more positions are to be filled; provided, however, that all cumulative voting hereunder shall comply with the procedural prerequisites of California Corporations Code, Section 7615(b), as same may be amended, from time to time, which, as of the date these ByLaws were adopted, provides that no Member shall be entitled to cumulate votes for a candidate or candidates unless such candidate's or candidates' names have been placed in nomination prior to the voting, and a Member has given notice at the meeting prior to the voting of said Member's intention to cumulate votes. If any one (1) Member has given such notice, all Members (including Declarant) shall have the right to cumulate votes and give one (1) candidate, or divide among any number of candidates, a number of votes equal to the total number of votes to which said Member is entitled to vote upon other matters multiplied by the number of Directors to be elected.

Section 5. Removal. At any regular or special meeting duly called, any one (1) or more of the Directors may be removed, with or without cause, as provided herein, and a successor may then and there be elected to fill the vacancy so created. Unless the entire Board is removed from office by the vote of Master Association Members, an individual Director shall not be removed prior to the expiration of his term of office if the number of votes cast against his 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 most recent election of the Director were then being elected. A Director who has been elected to office solely by the votes of Members of the Master Association, other than the Declarant, 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 the Declarant.

Section 6. Vacancies. Subject to Section 3 above, vacancies on the Board caused by any reason, other than the removal of a Director by a vote of the Master Association, shall be filled by vote of a majority of the remaining Directors, even though they may constitute less than a quorum, and each Director so elected shall serve until a successor is elected at the next annual meeting of the Master Association. In the event that a majority of the remaining Directors are unable to agree upon a successor within fifteen (15) days following the occurrence of a vacancy, a special meeting of the Members and election to fill the vacancy shall then be held in accordance with the provisions of these ByLaws; provided however, such meeting and election shall be held within not less than fifteen (15) days nor more than forty-five (45) days following the expiration of said fifteen (15) day period. A vacancy shall be deemed to exist in case of death, the Close of Escrow for the sale of the Director's Lot or Condominium, or a judicial determination of mental incompetency.

Section 7. Compensation of Directors. No Director shall receive compensation for any service he may render to the Master Association, except as permitted under the Article contained in the Master Declaration entitled "Powers and Duties of the Master Association"; provided however, a Director may be reimbursed for actual expenses incurred in the performance of the Director's duties.

ARTICLE VI

MEETINGS OF DIRECTORS

Section 1. Regular and Special Meetings. Regular meetings of the Board shall be held monthly or as otherwise determined by the Board, but not less frequently than twice a year, and on such day and at such hour as may be fixed, from time to time, by resolution of the Board. Should said meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday. Notice of the time and place of a regular meeting shall be posted at a prominent place or places within the Master Association Property, and shall be communicated to the Directors not less than four (4) days prior to the meeting unless the time and place of the meeting is fixed by the Directors and duly adopted herein. Notice may be given personally, by first class mail, by telephone, facsimile or by other electronic transmission approved by the Board. Notwithstanding the foregoing, notice of a regular meeting need not be given to any Director who has signed a waiver of notice or a written consent to holding of the meeting, or who attends the meeting without protest. Special meetings of the Board shall be held when called by the President of the Master Association or by two (2) Directors, other than the President. Notice of the special meeting shall be posted in a prominent place or places in the Master Association Property and shall be communicated to the Directors in the same manner as provided for herein for regular meetings. Such notice shall be sent not less than seventy-two (72) hours prior to the scheduled time for the special meeting. Notwithstanding the foregoing, notice of a special meeting need not be given to any Director who has signed a waiver of notice or a written consent to holding of the meeting, or who attends the meeting without protest. The notice shall specify the time and place of the meeting and the nature of any special business to be transacted. Such notice,

whether delivered personally to the Directors or sent by letter (postage or other charges prepaid), facsimile or other electronic transmission shall be directed to the address reflected in the records of the Master Association. Regular and special meetings of the Board shall be open to all Members of the Master Association; provided, however, that Master Association Members who are not on the Board may not participate in any deliberation or discussion unless expressly so authorized by the vote of a majority of a quorum of the Board. The Board may, with the approval of a majority of its members present at a meeting in which a quorum for the transaction of business has been established, adjourn a meeting and reconvene in executive session to discuss and/or vote upon personnel matters, litigation in which the Master Association is or may become involved, contracts with third parties 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. Any matter discussed in executive session shall be generally noted in the minutes of the Board.

Section 2. Meetings of Directors. The meetings of the Directors shall be held at the Community or as may be designated by the Board. Directors may participate in a meeting by means of a conference telephone conversation so long as all Directors participating in such meeting can hear one another. Such participation shall be deemed to constitute the presence in person at such meeting.

Section 3. Rights of Members to Attend Board Meetings. Any Member of the Master Association may attend meetings of the Boards except when the Board adjourns to executive session. In any matter relating to the discipline of a Member, the Board shall meet in executive session if requested by that Member, and the Member shall be entitled to attend the executive session.

Section 4. Minutes of Board Meetings. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board, other than an executive session, shall be available to Members within thirty (30) days of the meeting. The minutes, proposed minutes, or summary minutes shall be distributed to any Member of the Master Association upon request and upon reimbursement of the Master Association's costs in making that distribution.

Members of the Master Association shall be notified in writing at the time that the pro forma budget required in Section 1365 is distributed or at the time of any general mailing to the entire membership of the Master Association of their right to have copies of the minutes of meetings of the Board. The minutes may be obtained in accordance with the provisions of the Article herein entitled "Inspection of Books and Records".

Section 5. Action Without Meeting. The Board may take any action without a meeting if all members of the Board unani- mously consent in writing to the action to be taken. If the Board resolves by unanimous written consent to take any such action, an explanation of the action taken shall be posted at a prominent place or places within the Master Association Property within three (3) days after the written consent of all Directors has been obtained.

Section 6. Conduct of Meetings. The President of the Master Association shall preside over all meetings of the Board held during the Board's term of office. In the event the President shall be absent from any meeting, said meeting shall be presided over by such other Director as may be elected by a majority of a quorum of the Directors. The Secretary of the Master Association shall act as Secretary of the Board, but in the event the Secretary shall be absent, the President or presiding Director may appoint any person to act as Secretary for the meeting.

Section 7. Quorum. A majority of the total number of Directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE VII

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1. Powers. The Board, for and on behalf of the Master Association, shall have the right and power to do all things necessary to conduct, manage and control the affairs and business of the Master Association. Without limiting the foregoing, subject to the provisions of the Articles, the Master Declaration and these ByLaws, the Board shall have all general powers authorized under the California Corporations Code for nonprofit, mutual benefit corporations, and shall have the powers and duties as set forth in the Articles and Master Declaration.

ARTICLE VIII

OFFICERS AND THEIR DUTIES

Section 1. Enumeration and Qualifications of Officers. The officers of this Master Association shall be a President, Vice President, Secretary and a Treasurer. Said officers shall consist only of Members in good standing of the Master Association. Any Member serving as a Director of the Master Association may simultaneously serve as an officer thereof.

Section 2. Election of Officers. The election of officers shall take place at the first meeting of the Board following each annual meeting of the Members.

Section 3. Term. The officers of the Master Association shall be elected annually by the Board and each shall

hold office for one (1) year, unless such officer shall sooner resign or shall be removed or otherwise disqualified to serve.

Section 4. Special Appointments. The Board may elect such other officers as the affairs of the Master Association may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may, from time to time, determine.

Section 5. Resignation and Removal. Any officer may be removed from office at any time, with or without cause, by a majority of the Board. Any officer may resign at any time by giving written notice to the Board, the President or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at such later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

Section 7. Multiple Offices. The offices of Secretary and Treasurer may be held by the same person. No person shall simultaneously hold more than one (1) of any of the other offices, except in the case of special offices created pursuant to Section 4 of this Article.

Section 8. Duties. Duties of the officers are as follows:

(a) President: The President shall preside at all meetings of the Members of the Master Association; shall see that orders and resolutions of the Board are carried out; shall co-sign all leases, mortgages, deeds and other written instruments, and shall co-sign all checks and promissory

notes; provided, however, that the authority to co-sign all checks is assignable to a manager for the Community.

(b) Vice President: The Vice President shall act in the place and stead of the President in the event of the President's absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

(c) Secretary: The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; serve notice of meetings of the Board and of the Members; keep appropriate current records showing the Members of the Master Association, together with their addresses, and shall perform such other duties as required by the Board.

(d) Treasurer: The Treasurer shall receive and deposit in appropriate bank accounts all moneys of the Master Association and shall disburse such funds as directed by resolution of the Board; shall co-sign all checks and promissory notes of the Master Association; provided, however, that the authority to co-sign all checks is assignable to a manager for the Community; keep proper books of account; cause an annual audit of the Master Association books to be made by a certified public accountant at the completion of each fiscal year as provided for in the Master Declaration, and shall prepared an annual budget and a statement of income and expenditures to be presented to the membership at its regular annual meeting, and deliver a copy of each to the Members.

Section 9. Compensation of Officers. No officer shall receive any compensation for services performed to the Master Association, except as permitted under the Article contained in the Master Declaration entitled "Powers and Duties of the Master

Association"; provided, however, that an officer may be reimbursed for his actual expenses incurred in the performance of his duties.

ARTICLE IX

COMMITTEES

Section 1. Appointment of Committees. The Board shall appoint a Design Review Committee, as provided in the Master Declaration, and a Nominating Committee, as provided in these By-laws. In addition, the Board may appoint other committees as deemed appropriate in carrying out its purposes.

ARTICLE X

INSPECTION OF BOOKS AND RECORDS

Section 1. Availability of Books and Records. Members of the Master Association shall have the right to inspect all of the Master Association's books and records in accordance with Sections 8330 et seq. of the California Corporations Code, as same may be amended from time to time. Without limiting the foregoing, the Master Association's books and records include, without limitation, the membership register, including mailing addresses and telephone numbers, books of account, financial statements and minutes of meetings of the Members, of the Board and of any and all committees. The books and records of the Master Association shall be made available for inspection and copying by any Member of the Master Association, or by his duly-appointed representative, at any reasonable time and for a purpose reasonably related to his interest as a Member, at the office of the Master Association or at such other place within the Community as the Board shall prescribe.

Section 2. Rules Concerning Inspection. The Board shall establish reasonable rules with respect to:

- (a) Notice to be given to the custodian of the records by the Member desiring to make the inspection;
- (b) Hours and days of the week when such an inspection may be made; and
- (c) Payment of the cost of reproducing copies of documents requested by a Member.

Section 3. Inspection by Directors. Every Director shall have the absolute right at any reasonable time to inspect all of the books and records of the Master Association, and the physical properties owned or controlled by the Master Association. The right of inspection by a Director includes the right to make extracts and copies of documents.

ARTICLE XI

NOTICE AND HEARING

Section 1. Suspension of Privileges. In the event of an alleged violation of the Master Declaration, these ByLaws or the Rules and Regulations of the Master Association, and after written notice of such allegation, as provided below, the Board shall have the right, after conducting a hearing on the matter, as provided below, to discipline any Member by taking any one (1) or more of the following actions: (a) levying a Compliance Assessment as provided in the Master Declaration; (b) suspending or conditioning the right of said Member to use any Master Association Property (including any recreational amenity located thereon, owned or operated by the Master Association, but excepting such rights as are reasonably required for access to such Owner's Lot or Condominium); or (c) suspending said Member's voting privileges. Any such suspension shall be for a period of time not exceeding thirty (30) days for any noncontinuing violation, but in the case of a continuing violation, including, without limitation, the

nonpayment of Assessments which have become delinquent, such suspension may be imposed so long as the violation continues.

Section 2. Notice to Member. Written notice of the alleged violation shall be delivered personally or mailed to the Member by first class or registered mail, return receipt requested, at least fifteen (15) days before the proposed hearing on said alleged violation. Said notice shall contain: (a) an explanation in clear and concise terms of the nature of the alleged violation; (b) a reference to provisions of the Master Declaration, the Rules and Regulations or these ByLaws which said Member is alleged to have violated; and (c) the time and place for the hearing.

Section 3. Hearing. The hearing shall be conducted by the Board, in executive session, who shall hear the charges and evaluate the evidence concerning the alleged violation. At the hearing, said Member shall have the right to present oral or written evidence concerning the alleged violation. The Board shall render its decision concerning the alleged violation to said Member not less than five (5) days after the hearing, and shall provide a written explanation of the suspension, fine or conditions, if any, imposed by the Board.

Section 4. Monetary Penalties. If the Board adopts a policy regarding the imposition of any monetary penalty (including a Compliance Assessment) on any Member due to a violation of the Master Association Documents, (including any monetary penalty relating to the activities of a guest or invitee of a Member), the Board shall adopt and distribute to each Member, by personal delivery or first-class mail, a schedule of the monetary penalties that may be assessed for those violations. The Board shall not be required to distribute any additional schedules of monetary penalties unless there are changes from the schedule previously adopted and distributed to the Members.

ARTICLE XII

AMENDMENTS

Section 1. Amendments to ByLaws. So long as the two-class voting structure provided for herein shall remain in effect, these ByLaws may be amended only by the vote or written assent of fifty-one percent (51%) of the voting power of each class of Members. At such time as the Class B membership shall cease and be converted to Class A membership, amendments to these ByLaws shall be enacted by requiring the vote or written assent of:

(a) A bare majority of the voting power of the Master Association; and

(b) A bare majority of the votes of Members, other than the Declarant.

Notwithstanding the foregoing, the percentage of the voting power of the Master Association and of Members, other than the Declarant, necessary to amend a specific provision in these ByLaws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under said provision.

ARTICLE XIII

CORPORATE SEAL

Section 1. Seal. The Master Association shall have a seal in circular form having within its circumference the words:

SHADY CANYON COMMUNITY ASSOCIATION

ARTICLE XIV

MISCELLANEOUS

Section 1. Director and Officer Liability. Subject to the provisions of Section 1365.7 of the California Civil Code, as amended from time to time, any person who suffers injury, including, but not limited to, bodily injury, emotional distress, wrongful death, property damage or loss as a result of the tortious

act or omission of a volunteer officer or volunteer director of the Master Association shall not recover damages from a volunteer officer or volunteer director if all of the following criteria are met:

(a) The act or omission was performed within the scope of the officer's or director's Master Association duties (including, but not limited to, decisions whether to conduct an investigation of the Community for latent deficiencies prior to the expiration of the applicable statute of limitations, and/or whether to commence a civil action against the builder for defects in design or construction).

(b) The act or omission was performed in good faith.

(c) The act or omission was not willful, wanton or grossly negligent.

(d) The Master Association maintained and had in effect at the time the act or omission occurred and at the time a claim is made one or more policies of insurance which includes coverage for general liability of the Master Association and individual liability of officers and directors of the Master Association for negligent acts or omissions in that capacity; provided that both types of coverage are in the following minimum amounts:

(i) At least five hundred thousand dollars (\$500,000) if the Community consists of 100 or fewer Lots and Condominiums;

(ii) At least one million dollars (\$1,000,000) if the Community consists of more than 100 Lots and Condominiums.

The payment of actual expenses incurred by a director or officer in the execution of the duties of that position does not affect the director's or officer's status as a volunteer within the meaning of this Section.

An officer or director who at the time of the act or omission received either direct or indirect compensation as an employee from Declarant, or from a financial institution that purchased a Lot or Condominium at a judicial or nonjudicial foreclosure of a Mortgage is not a volunteer for the purposes of this Section.

Nothing in this Section shall be construed to limit the liability of the Master Association for its negligent acts or omissions or for any negligent act or omission of any officer or director of the Master Association.

This section shall only apply to a volunteer officer or director who resides in the Community either as a tenant or as an Owner of no more than two Lot or Condominiums.

Section 2. Indemnification of Directors and Officers.

To the maximum extent permitted by law, the Master Association shall defend, indemnify and hold harmless all directors, officers, employees and "agents" (as defined in Section 7237 of the California Corporations Code) of the Master Association (collectively the "Master Association Representatives"), from and against all claims, costs, expenses and other liability which may be imposed upon or reasonably incurred by an Master Association Representative, including reasonable settlement payments, in connection with any claim, action, suit or proceeding, or threat thereof, made or instituted, in which such Master Association Representative may be involved or be made a party by reason of being or having been an Master Association Representative or by any action alleged to have been taken or omitted by such Master Association Representative whether or not the claim asserted is based on matters which arose in whole or in part prior to the adoption of this Section, and in the event of the death of the Master Association Representative, shall extend to the legal representatives of such person. The right of indemnification provided in this Section shall not be

exclusive of any other rights to which any person may be entitled as a matter of law, under any agreement or otherwise.

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

Section 4. Checks and Drafts. All checks, drafts or other order for payments of money, notes or other evidences of indebtedness issued in the name of or payable to the Master Association shall be signed or endorsed by the President and Treasurer, and in such manner as, from time to time, shall be determined by resolution of the Board.

Section 5. Execution of Documents. The Board 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 Master Association, and such authority may be general or confined to specific instances, and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Master Association by any contract or engagement, or to pledge its credit, or to render it liable for any purpose or in any amount.

Section 6. Dissolution. Any dissolution of the Master Association shall require the approval of the Board and the vote or written consent of both: (a) individual Members exercising at least a majority of the total voting power of the Master Association, and (b) individual Members exercising at least a majority of the voting power of the Master Association residing in Members, other than Declarant. Upon the winding-up and dissolution of the Master Association, after paying or adequately providing for the debts and obligations of the Master Association, the remaining assets shall be distributed to an appropriate public agency or any nonprofit

corporation, association or trust, to be used for purposes similar to those for which the Master Association was created.

Section 7. Conflict. In the case of any conflict between the Articles and these ByLaws, the Articles shall control, and in the case of any conflict between the Master Declaration and these ByLaws, the Master Declaration shall control.

* * *

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting Secretary of SHADY CANYON COMMUNITY ASSOCIATION, a California nonprofit, mutual benefit corporation; and

2. That the foregoing ByLaws, comprised of 28 pages, constitute the original ByLaws of said corporation, as duly adopted at the first meeting of the Board of Directors thereof duly held _____, 2001.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said corporation this _____ day of _____, 2001.

SECRETARY
Shady Canyon Community Association