

BY-LAWS
OF
VILLAGIO AT RANCHO SAN CLEMENTE
HOMEOWNERS ASSOCIATION
A California Non-Profit Mutual Benefit Corporation

1. NAME AND LOCATION

The name of the corporation is VILLAGIO AT RANCHO SAN CLEMENTE HOMEOWNERS ASSOCIATION (hereinafter referred to as the "Association"). The Association is organized under the California General Nonprofit Mutual Benefit Corporation Law. The principal office of the Association shall be located in the County of Orange, State of California (hereinafter referred to as "the County"). Meetings of members shall be held at such places as are set forth in the Declaration (defined below).

2. DEFINITIONS

2.1 Declaration. The "Declaration" shall mean, collectively, the Declaration of Covenants, Conditions and Restrictions and any amendments or supplements recorded or to be recorded pursuant thereto, and applicable to the development commonly known and referred to as VILLAGIO AT RANCHO SAN CLEMENTE located in the County, City of San Clemente, legally described as:

Lot 1, Lot 3, and Lot 4 and Lots A through Lot E, inclusive of Tract 12283, as per Map recorded on May 17, 1985, as Instrument No. 85-179348, in Book 540, pages 6 through 13, inclusive of Miscellaneous Maps in the office of the County Recorder of Orange County, California,

and any additional real property that may be annexed thereto.

2.2 Other Definitions. Each and every definition set forth in Section 1 of the Declaration shall have the same meaning herein as therein, and each and every such definition is incorporated by reference herein and made a part hereof as if once again fully written and set forth at length hereat.

3. MEMBERSHIP; VOTING RIGHTS

The qualification for membership, the classes of membership and the voting rights of members shall be as set forth in the Declaration, all of which are hereby incorporated by reference herein as if set forth in full.

4. MEETINGS OF MEMBERS

4.1 Annual Meetings. The organizational meeting and the first annual meeting of the members shall be

held within the development as described in the Declaration. Thereafter, annual meetings of members of the Association shall be held within the development in each succeeding year within one week before or after the anniversary date of said first annual meeting on a day to be determined by the board, which day shall not be a legal holiday.

4.2 Special Meetings. Special meetings of the members may be called at any time by the president or by a majority of a quorum of the board, or upon written request of the members representing at least five percent (5%) of the total voting power of the Association.

4.3 Notice of Meetings. Notice of all members meetings, annual or special, shall be given by mail or telegram and shall be given not less than ten (10) days nor more than ninety (90) days prior to the time of said meeting and shall set forth the place of the meeting which must be within the development, the date and hour of the meeting, and the nature of the business to be undertaken. Notices shall be given by, or at the direction of, the secretary or person authorized to call the meeting, and shall be transmitted to each member entitled to vote thereat and to each mortgagee addressed to such member's or mortgagee's address last appearing on the books of the Association, or supplied by such member or mortgagee to the Association for the purpose of notice. Mailed notices shall be deemed received forty-eight (48) hours after same are mailed by certified mail, return receipt requested; notice by telegram shall be deemed received twenty-four (24) hours after same are sent. Notices to members may also be personally delivered, and shall be deemed received upon delivery to any occupant of the member's residence.

4.4 Quorum. The presence at any meeting in person or by proxy of members entitled to cast at least fifty percent (50%) of the total votes of all members of the Association shall constitute a quorum. If any meeting cannot be held because a quorum is not present, members representing a majority of the votes present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which adjourned meeting the quorum requirement shall be at least twenty-five percent (25%) of said total votes. 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 for the adjourned meeting shall be given to members in the manner prescribed for regular meetings. Any meeting of members whereat a quorum is present may be

adjourned for any reason to a time not less than forty-eight (48) hours nor more than thirty (30) days from the time of such meeting by members representing a majority of the votes present thereat, either in person or by proxy.

4.5 Proxies. At all meetings of members each member may be present in person or by proxy. All proxies shall be in writing and filed with the secretary. Every proxy shall be revocable and shall automatically cease when the ownership interest or interests of such member entitling him to membership in the Association ceases.

4.6 Order of Business. The order of business of all meetings of the members shall be as follows:

- 4.6.1 roll call;
- 4.6.2 proof of notice of meeting or waiver of notice;
- 4.6.3 reading of minutes of preceding meeting;
- 4.6.4 reports of board and officers;
- 4.6.5 election of directors, if any are to be elected;
- 4.6.6 unfinished business; and
- 4.6.7 new business.

4.7 Parliamentary Procedure. All questions of parliamentary procedure shall be decided in accordance with Roberts Rules of Order.

4.8 Majority of Owners. Except as otherwise provided herein or in the Declaration, the majority of the total voting power present, in person or by proxy, shall prevail at all meetings.

4.9 Action Without Meeting. Any action which may be taken at a meeting of the members may be taken without a meeting if done in compliance with Section 7513 of the California Corporations Code, except that directors must be elected at a meeting.

5. SELECTION AND TERM OF OFFICE OF BOARD

5.1 Number. The board shall consist of five (5) directors who need not be members.

5.2 Term of Office. At the first annual meeting the members shall elect each of the five (5) directors for a term of one (1) year. At the expiration of the initial term of office of each director, his successor shall be elected to serve for a term of one (1) year.

5.3 Election; Removal; Vacancies. Election and removal of directors shall be as provided in the Declaration including Section 5.6.2, and Section 6.2.3. In the event of the death or resignation of a director, except for specially elected directors, his successor shall be selected by the remaining members of the board and shall serve for the unexpired term of his predecessor. In the case of a removed director, his successor shall be elected by the members pursuant to Section 6.2.3 of the Declaration.

5.4 Compensation. No director shall receive any compensation for any service he may render to the Association; provided, however, any director may be reimbursed for actual out-of-pocket expenses incurred by him in the performance of his duties.

6. NOMINATION AND VOTING FOR DIRECTORS

6.1 Nomination. Nomination for election to the board shall be made by a nominating committee consisting of three (3) persons. Nominations may also be made from the floor at each annual meeting. The nominating committee shall consist of a chairman, who shall be a member of the board, and two (2) 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 shall make as many nominations for election to the board as it shall, in its discretion, determine, but not less than the number of vacancies to be filled. Such nominations may be made from among members or non-members.

6.2 Voting. Election to the board shall be by secret written ballot. At such election, the members, or their proxies, may cast, in respect to each vacancy, as many votes as they are entitled to cast under the provisions of Section 6.2 of the Declaration (and subject to cumulative voting as therein

described). The candidates receiving the highest number of votes shall be deemed elected.

7. MEETINGS OF DIRECTORS

7.1 Regular Meetings. Regular meetings of the board shall be held monthly at such time and place within the development as may be fixed from time to time by resolution of the board. Should any such 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 any such meeting shall be posted at a prominent place or places within the common area, and shall be given to each director not less than four (4) days prior to the meeting; provided, however, that no notice need be given to a director who signs a waiver of notice or written consent to the holding of the meeting.

7.2 Special Meetings. Special meetings of the board shall be held when called by the president of the Association, or by any two (2) directors, after not less than three (3) days prior notice to each director, which notice shall specify the time and place of the meeting within the development and the nature of any special business to be considered. The notice shall be posted and given in the manner prescribed for notice of regular meetings.

7.3 Quorum. A majority of the number of directors shall constitute a quorum for the transaction of business at a meeting of the board. 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.

7.4 Conduct of Meetings. Regular and special meetings of the board shall be open to all members of the Association; provided, however, that 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 a quorum of the members of the board, 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 orders of business of a similar or otherwise sensitive nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

7.5 Action Taken Without a Meeting. The directors shall have the right to take any action in the absence of a

meeting which they could take at a meeting by obtaining the written approval of all the directors. Any action so approved shall have the same effect as though taken at a meeting of the board. An explanation of any action so approved shall be given to the Association members by posting at a prominent place(s) within the common area within three (3) days of the obtaining of all directors written approvals.

8. POWERS AND DUTIES OF THE BOARD

8.1 Powers. The board shall have all powers conferred upon the Association as set forth herein and in the Declaration, excepting only those powers expressly reserved to the members.

8.2 Duties. It shall be the duty of the board:

8.2.1 to cause to be kept a complete record of all of its acts and doings and to present a statement thereof to the members at each annual meeting of the members, or at any special meeting when such statement is requested in writing by members representing one-fourth (1/4) of the class A members;

8.2.2 to supervise all officers, agents and employees of the Association, and to see that their duties are properly performed; and

8.2.3 to delegate its powers as provided in the Declaration.

9. OFFICERS AND THEIR DUTIES

9.1 Enumeration of Offices. The officers of the Association shall be a president and vice president, who shall at all times be members of the board, a secretary, and a chief financial officer, and such other officers as the board may from time to time by resolution create.

9.2 Election of Officers. The election of officers shall take place at the organizational meeting of the board and thereafter at each meeting of the board following each annual meeting of the members.

9.3 Term. The officers of this Association shall be elected annually by the board and each shall hold office for one year unless he shall sooner resign, or shall be removed, or shall otherwise be or become disqualified to serve.

9.4 Special Appointments. The board may elect such other officers as the affairs of the 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.

9.5 Resignation and Removal. Any officer may be removed from office with or without cause by 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 any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

9.6 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.

9.7 Multiple Offices. The offices of the secretary and chief financial officer may be held by the same person. No person shall simultaneously hold more than one of any of the other offices except in the case of special offices created pursuant to Section 9.4 hereof.

9.8 Duties. The duties of the officers shall be as follows:

9.8.1 President The president shall preside at all meetings of the board, shall see that orders and resolutions of the board are carried out, shall sign all leases, mortgages, deeds and other written instruments, and shall co-sign all checks and promissory notes.

9.8.2 Vice President The vice president shall act in the place and stead of the president in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the board.

9.8.3 Secretary The secretary shall record the votes and keep the minutes of all meetings and proceedings of the board and of the members, shall serve notices of meetings of the board and of the members, shall keep appropriate current records showing the members of the Association together with their addresses, and shall perform such other duties as required by the board.

9.8.4 Chief Financial Officer. The chief financial officer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the board, shall co-sign all checks and promissory notes of the Association, shall keep proper books of account, and shall assist in or cause the preparation and distribution of the financial statements of the Association.

9.9 Compensation. No officer shall receive any compensation for any service he may render to the Association; provided, however, any officer may be reimbursed for actual out-of-pocket expenses incurred by him in the performance of his duties.

10. COMMITTEES

Subject to any contrary provisions of the Declaration and these by-laws, if any, the board may appoint a nominating committee as provided in these by-laws. In addition, the board may appoint such other committees as it deems appropriate in order to carry out its purpose.

11. INDEMNIFICATION

The Association shall indemnify any person who is or was an "agent" (as defined in California Corporations Code, Section 7237) of the Association to the fullest extent permitted and subject to any limitations imposed by California Corporations Code, Section 7237.

12. ASSESSMENTS

- Liability for Assessments; Collection. As more fully provided in Sections 7 and 8 of the Declaration, each member is obliged to pay to the Association annual and special assessments to be collected as therein set forth, all of which are hereby incorporated by reference herein as if set forth in full.

13. PROCEDURE FOR SUSPENSIONS OR FINES

Any action by the Association to discipline a member as provided by the Declaration for his failure to comply with the Declaration, Articles, Bylaws or Association Rules, must be accomplished pursuant to the following procedures:

13.1 The member shall be given fifteen (15) days prior notice of the discipline to be imposed and the reasons

therefor. The notice shall be given personally or by first class or registered mail;

13.2 The member shall be given an opportunity to be heard, orally or in writing, by the Board, not less than five (5) days before the date the discipline is to be imposed. The member may be represented by counsel; and

13.3 The minimum requirements of Section 7341 of the California Corporations Code shall otherwise be complied with.

14. AMENDMENTS

14.1 If a two-class voting structure is still in effect in the Association, these by-laws may be amended only with the vote or written consent of members entitled to cast at least fifty-one percent (51%) of the voting power of each class of membership in the Association.

14.2 If a two-class voting structure is no longer in effect in the Association because of the conversion of Class A membership to Class B membership, as provided in the Declaration, these by-laws may be amended only with the vote or written consent of members entitled to cast at least fifty-one percent (51%) of the voting power of the Association and of members other than the Declarant entitled to cast at least fifty-one percent (51%) of the voting power held by members other than the Declarant.

14.3 Notwithstanding the other subsections of this Section 13, the percentage of the voting power of the Association or of members other than the Declarant necessary to amend a specific clause or provision in these by-laws or the Articles of Incorporation shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause or provision.

14.4 Notwithstanding any other provision in Section 13, the adoption of any amendment to these by-laws shall comply with the provisions of California Business and Professions Code Section 11018.7 to the extent that said section is applicable.

14.5 Amendment of the Articles of Incorporation shall require (i) the vote or written consent of a majority of the board, and (ii)(a) the vote or written consent of the members representing at least fifty-one percent (51%) of each class of members entitled to vote, or (b) if a two-class voting

structure is no longer in effect in the Association the vote or written consent of members entitled to cast at least fifty-one percent (51%) of the voting power of the Association and of members other than the Declarant entitled to cast at least fifty-one percent (51%) of the voting power held by members other than the Declarant.

15. GENERAL PROVISIONS

15.1 Conflicting Provisions. In the case of any conflict between any provisions of the Declaration and these by-laws, the conflicting provisions of the Declaration shall control.

15.2 Fiscal Year. The fiscal year of the Association shall be a calendar year unless and until a different fiscal year is adopted by the members at a duly constituted meeting thereof.

15.3 Proof of Membership. No person shall exercise the rights of membership in the Association until satisfactory proof thereof has been furnished to the secretary. Such proof may consist of either a copy of a duly executed and acknowledged grant deed or title insurance policy showing said person to be an Owner entitling him to membership. Such deed or policy shall be deemed conclusive in the absence of a conflicting claim based on a later deed or policy.

15.4 Absentee Ballots. The board may make such provisions as it may consider necessary or desirable for absentee ballots.

15.5 Consent to Waiver of Notice. The transactions at any meeting of the board, however noticed, shall be as valid as though had at a meeting duly held after regular notice if a quorum be present and either before or after the meeting each director not present thereat signs a written waiver of notice or a consent to the holding of such meeting or an approval of the true and correct minutes thereof. All such waivers, consents or approvals shall be filed with the records of the board and made a part of its minutes.

15.6 Reserves. Any amounts collected by or paid to the Association in excess of operational needs shall be set aside as reserves for future financial needs in the manner set forth in the Declaration and shall be deposited into insured interest-bearing accounts. These sums may include amounts collected by Declarant from owners through purchase escrows

representing capital contribution by such owners to the Association.