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BYLAWS

OF

LAKE GROVE HOMECOMERS ASSOCIATION

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FOR BYLAWS

OF

LAKE GROVE HOMEOWNERS ASSOCIATION

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BYLAWS
OF
LAKE GROVE HOMEOWNERS ASSOCIATION

ARTICLE I

PLAN OF CONDOMINIUM OWNERSHIP

Section 1.01. Name. The name of the corporation is LAKE GROVE HOMEOWNERS ASSOCIATION, herein referred to as the "Association." The principal office of the Association shall be located in Orange County, California.

Section 1.02. Application. The provisions of these Bylaws are applicable to the residential condominium project known as Lake Grove, located in the County of Orange, California. All present and future Owners and their tenants, future tenants, employees, and any other person who might use the facilities of the Project in any manner, are subject to the regulations set forth in the Bylaws and in the Declaration of Covenants, Conditions and Restrictions, and Reservation of Easements for Lake Grove (the "Declaration" herein) Recorded or to be Recorded in the Office of the Orange County Recorder and applicable to the Project. The mere acquisition or rental of any Condominium in the Project or the mere act of occupancy of any Condominium will signify that these Bylaws are accepted, ratified, and will be complied with.

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

ARTICLE II

VOTING BY ASSOCIATION MEMBERSHIP

Section 2.01. Voting Rights. The Association shall have two (2) classes of voting Membership, as further provided in the Declaration.

Class A. Class A Members shall be those Owners with the exception of Grantor for as long as there exists a Class B Membership. Class A Members shall be entitled to one (1) vote for each Condominium owned which is subject to assessment, as further provided in the Declaration.

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

(1) When the total votes outstanding in the Class A Membership equal the total votes outstanding in the Class B Membership;

(2) The second anniversary of the original issuance of the most recently issued Final Subdivision Public Report for a Phase of Development; or

(3) The fourth anniversary of the original issuance of the Final Subdivision Public Report for Phase 1.

Except as provided in Section 14.02 of the Declaration and Section 4.08 of these Bylaws, so long as there exists a Class B Membership, any provision of these Bylaws which expressly requires a vote or written consent of a specified percentage of the voting power of the Association before being undertaken shall require the approval of such specified percentage of the voting power of each class of membership. Except as provided in Section 14.02 of the Declaration and Section 4.08 of these Bylaws, upon termination of the Class B Membership, any provision of these Bylaws which expressly requires a vote or written consent of Owners representing a specified percentage of the voting power of the Association shall then require the vote or written consent of Owners representing such specified percentage of both the total voting power of the Association and the voting power of the Association residing in Owners other than Grantor.

Section 2.02. Majority of Quorum. Unless otherwise expressly provided in these Bylaws or the Declaration, any action which may be taken by the Association may be taken by a majority of a quorum of the Members of the Association.

Section 2.03. Quorum. Except as otherwise provided in these Bylaws, the presence in person or by proxy of at least a majority of the voting power of the Membership of the Association shall constitute a quorum of the Membership. The members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum.

Section 2.04. Proxies. Votes may be cast in person or by proxy and all proxies must be in writing. Every proxy shall be revocable and shall automatically cease after completion of the meeting for which the proxy was filed.

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 Property, approving the annual Budget, establishing and collecting all assessments applicable to the Property, and arranging for overall architectural control of the Property.

Section 3.02. Place of Meetings of Members. Meetings of the Members shall be held on the Property, or such other suitable place as proximate thereto as practicable, in Orange County, convenient to the Owners, as may be designated by the Board of Directors.

Section 3.03. Annual Meetings of Members. The first Annual meeting of Members shall be held within forty-five (45) days after Close of Escrow for the sale of fifty-one percent (51%) of the Condominiums in Phase 1 or within six (6) months after the Close of Escrow for the sale of the first Condominium in Phase 1, whichever occurs first. Thereafter, the annual meetings of the Members shall be held on or about the anniversary date of the first annual meeting. At each annual meeting, there shall be elected by ballot of the Members a Board of Directors of the Association, in accordance with the requirements of Article IV, Section 4.05 of these Bylaws. The Members may also transact such other business of the Association as may properly come before them. Each first Mortgagee of a Condominium in the Project may designate a representative to attend all annual meetings of the Members.

Section 3.04. Special Meetings of Members. It shall be the duty of the Board to call a special meeting of the Members, as directed by resolution of a majority of a quorum of the Board of Directors, or upon receipt by the Secretary of a petition signed by Members 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 such resolution or receipt of such petition. No business shall be transacted at a special meeting except as stated in the notice. Each first Mortgagee of a Condominium in the Project may designate a representative to attend all special meetings of the Members.

Section 3.05. Notice of Meetings to Members. It shall be the duty of the Secretary to send a notice of each annual or special meeting by first-class mail, at least ten (10) but not more than thirty (30) 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 Member of record, and to each first Mortgagee of a Condominium, which Mortgagee has filed a written request for notice with the Secretary. The notice may set forth time limits for speaking 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 to the Members. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be considered notice served, forty-eight (48) hours after said notice has been deposited in a regular depository of the United States mail. Such notice shall be posted in a conspicuous place on the Common Property, and such notice shall be deemed served upon a Member upon posting if no address for such Member has been then furnished the Secretary. The Board of Directors may fix a date in the future as a record date for the determination of the Members entitled to notice of any meeting of Members. The record date so fixed shall be not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting. Only Members who on the record date for notice of the meeting are entitled to vote thereat, shall be entitled to notice of the meeting, notwithstanding any transfer of or issuance of Membership certificates on the books of the Association after the record date.

Section 3.06. Adjourned Meetings. If any meeting of Members cannot be organized because a quorum is not present, a majority of the Members who are present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which meeting the quorum requirement shall be the presence in person or by proxy of the Members holding at least twenty-five percent (25%) of the voting power of the Association. Such an adjourned meeting may be held without notice thereof as provided in this Article III, provided that notice is given by announcement at the meeting at which such adjournment is taken. If, however, such an adjourned meeting is actually attended, in person or by proxy, by Members having less than one-third (1/3rd) of the voting power of the Association, notwithstanding the presence of a quorum, no matter may be voted upon except such matters notice of the general nature of which was given pursuant to Section 3.05 hereof.

Section 3.07. Order of Business. The order of business at all meetings of the Members shall be as follows: (a) roll call to determine the voting power represented at the meeting; (b) proof of notice of meeting or waiver of notice; (c) reading of Minutes of preceding meeting; (d) reports of officers; (e) reports of committees; (f) election of inspector of elections (at annual meetings or special meetings held for such purpose); (g) election of Directors (at annual meetings or special meetings held for such purpose); (h) unfinished business; and (i) New Business.

Section 3.08. Action without Meeting. Any action, which may be taken at a meeting of the Members (except for the election of Directors) may be taken without a meeting by written ballot of the Members. Ballots shall be solicited in the same manner as provided in Section 3.05 for the giving of notice of meetings of Members. Such solicitations shall specify: (a) the number of responses needed to meet the quorum requirements; (b) the percentage of approvals necessary to approve the action; and (c) the time by which ballots must be received in order to be counted. The form of written ballot shall afford an opportunity to specify a choice between approval and disapproval of each matter. It shall provide that, where the Member specifies a choice, the vote shall be cast in accordance therewith. Receipt within the time period specified in the solicitation of a number of ballots which equals or exceeds the quorum which would be required if the action were taken at a meeting and a number of approvals which equals or exceeds the number of votes which would be required for approval if the action were taken at a meeting at which the total number of votes cast was the same as the total number of ballots cast shall constitute approval by written ballot.

Section 3.09. Consent of Absentees. The transactions of any meeting of Members, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the Members not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the Minutes thereof.

All such waivers, consents or approvals shall be filed with the corporate records or made a part of the Minutes of the Meeting.

Section 3.10. Minutes, Presumption of Notice. Minutes or a similar record of the proceedings of meetings of Members, when signed by the President or Secretary, shall be presumed truthfully to evidence the matters set forth therein. A recitation in the Minutes of any such meeting that notice of the meeting properly given shall be prima facie evidence that such notice was given.

ARTICLE IV

BOARD OF DIRECTORS

Section 4.01. Number and Qualification. The affairs of the Association shall be governed and managed 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 an Owner or an agent of Grantor for so long as Grantor owns a Condominium in the Project. The authorized number of Directors may be changed by a duly adopted amendment to the Bylaws. Directors and officers shall not receive any salary or compensation for their services as Directors and officers unless such compensation is approved by the vote or written consent of Members representing at least a majority of both the Class A and Class B voting power; 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 or officer may be reimbursed for his actual expenses incurred in the performance of his duties.

Section 4.02. Powers and Duties. The Board of Directors has the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these Bylaws directed to be exercised and done by the Members. The Board of Directors shall not enter into any contract for a term in excess of one (1) year, without the vote or written consent of the Members representing at least a majority of the voting power of the Association, except for (1) any contract of a minimum term with a public utility company regulated by the Public Utilities Commission which requires a term in excess of one (1) year, (2) a management contract the terms of which have been approved by the Veterans Administration or the Federal Housing Administration, (3) prepaid casualty or liability insurance policies of not to exceed three (3) years' duration, provided that the policies permit short term cancellation by the Association, and (4) lease agreements for laundry room fixtures and equipment of not to exceed five (5) years duration provided that the lessor under any such agreement is not an entity in which Grantor has a direct or indirect ownership interest of ten percent (10%) or more.

Section 4.03. 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, and responsible for, the following powers and duties:

(a) The power and duty to select, appoint, and remove all officers, agents and employees of the Association, to prescribe such powers and duties for them as may be consistent with law, 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 make and enforce such rules and regulations therefor consistent with law, the Articles of Incorporation, the Declaration and these Bylaws, as the Board may deem necessary or advisable.

(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 Orange, as provided in Article I hereof; to designate any place within said County for the holding of any annual or special meeting or meetings of Members consistent with the provisions of Article III, Section 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) With the approval of Members representing at least two-thirds (2/3rds) of the voting power of the Association, the power but not the duty to borrow money and to incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

(e) The power and duty to fix and levy from time to time Annual Assessments, Special Assessments, and Reconstruction Assessments upon Members, as provided in the Declaration, to fix and levy from time to time in any Fiscal Year Capital Improvement Assessments applicable to that year only for capital improvements; to determine and fix the due date for the payment of such assessments, and the date upon which the same shall become delinquent; provided, however, that such assessments shall be fixed and levied only to provide for the payment of the Common Expenses of the Association and of taxes and assessments upon real or personal property owned, leased, controlled or occupied by the Association, or for the payment of expenses for labor rendered or materials or supplies used and consumed, or equipment and appliances furnished for the maintenance, improvement or development of such property or for the payment of any and all obligations in relation thereto, or in performing or causing to be performed any of the purposes of the Association for the general benefit and welfare of its Members, in accordance with

the provisions of the Declaration. The Board of Directors is hereby authorized to incur any and all such expenditures for any of the foregoing purposes and to provide, or cause to be provided, adequate reserves for replacements as it shall deem to be necessary or advisable in the interest of the Association or welfare of its Members. The funds collected by the Board of Directors from the Members, attributable to replacement reserves, for maintenance costs which normally be expected to occur on an annual basis and for capital improvements shall at all times be held in trust for the Members. Disbursements from such trust reserve fund shall be made only in accordance with the provisions of the Declaration. Such Annual Assessments, Reconstruction Assessments, Special Assessments and Capital Improvement Assessments shall be fixed in accordance with the provisions of the Declaration. Should any Member fail to pay such assessments before delinquency, the Board of Directors in its discretion is authorized to enforce the payment of such delinquent assessments as provided in the Declaration.

(f) The power and duty to enforce the provisions of the Declaration, these Bylaws or other agreements of the Association.

(g) The power and duty to contract for and pay for, as reasonably necessary, fire, casualty, blanket liability, malicious mischief, vandalism, errors and omissions, liquor liability and other insurance, insuring the Members, the Association, the Board of Directors and other interested parties, in accordance with the provisions of the Declaration, covering and protecting against such damages or injuries as the Board deems advisable (which may include without limitation, medical expenses of persons injured on the Common Property).

(h) The power and duty to contract for and pay for maintenance, legal, accounting, gardening, and common utilities services, and for materials and supplies and other Common Expenses relating to the Common Property, and relating to the Units only to the extent not separately metered or charged, and to employ personnel necessary for the operation of the Property, including legal and accounting services, and to contract for and pay for Improvements on the Common Property.

(i) The power but not the duty to delegate its powers according to law, and subject to the approval of the Members, to adopt these Bylaws.

(j) The power but not the duty to grant easements where necessary for utility and other purposes over the Common Property for the benefit of the Members of the Association.

(k) The power and duty to adopt such Rules and Regulations as the Board may deem necessary for the management of the Project, which Rules and Regulations shall become effective and binding after (1) they are adopted by a majority of the Board at a meeting called for that purpose, or by the written consent of the Board in accordance with Section 4.13, and (2) they are posted in a conspicuous place in the Common Property. Such Rules and Regulations may concern, without limitation, use of the Common Property; signs; collection or disposal of refuse; minimum standards of property maintenance consistent with the Declaration and the procedures of the Architectural Committee; and any other matter within the jurisdiction of the Association as provided in the Declaration; provided, however, that such Rules and Regulations shall be enforceable only to the extent that they are consistent with the Declaration, the Articles of Incorporation and these Bylaws, and the Rules and Regulations may not be used to amend any of said documents.

(l) The power and duty to keep, or cause to be kept, a complete record of all acts and corporate affairs of the Association and to present a statement thereof to the Members at the annual meeting of the Members and at any other time that such statement is requested by at least ten percent (10%) of the Members who are entitled to vote.

(m) The power but not the duty to appoint a Membership Committee composed of at least one (1) Director and at least one (1) Association Member at large. The Membership Committee shall be responsible for contacting all purchasers of Condominiums in the Project as soon as any transfer of title to a Condominium is discovered. The Membership Committee shall further attempt to establish initial contact with all Members who are delinquent in the payment of any assessments or other charges due the Association.

(n) The power but not the duty to sell property of the Association; provided, however, that the prior vote or written approval of the Members representing least a majority of the voting power of the Association must be obtained to sell during any Fiscal Year any property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that Fiscal Year.

Section 4.04. Management Agent. The Board of Directors may engage for the Association a professional management agent at a compensation established by the Board to perform such duties and services as the Board shall authorize. Such agreement, and any other contract providing for services by Declarant, must provide for termination by either party for cause upon no more than thirty (30) days' written notice, and without cause per payment of a termination fee, upon no more than ninety (90) days' prior written notice.

Section 4.05 Elections and Term of Office

(a) Directors shall be elected by secret written ballot of the Members. At the first annual meeting of the Members, new Directors shall be elected by the Members as provided in these Bylaws, and all positions on the Board of Directors shall be filled at that election. In the event that an annual meeting is not held, or the Board is not elected thereat, the Board may be elected at any special meeting of the Members held for that purpose. Each Director shall hold office until his successor has been elected or until his death, resignation, removal or judicial adjudication of mental incompetence. The term of office of each Director shall be the first annual meeting following the term of office of each Director elected at the meeting. Vacancies created by the expiration of the term of office of a Director shall be filled by the election of a new Director shall be one (1) year. The term of office of a Director elected to fill a vacancy created by the resignation, death or removal of his predecessor shall be the unexpired term of his predecessor. Any person serving as a Director may be re-elected, and there shall be no limitation on the number of terms during which he may serve. Cumulative voting shall be used in the election of Directors for any election in which more than two (2) Directors are to be selected, subject only to the procedural prerequisites to cumulative voting in the following sentence. A member may cumulate his votes for any candidates for the Board if the candidate's name has been placed in nomination prior to the voting and if such Member, or any other Member, has given notice at the meeting prior to the voting of such Member's intention to cumulate votes. If a Member cumulates his votes, such Member may cast a number of votes equal to the Member's share of the voting power as set forth in the Declaration, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (1) notice is given for an election of Directors of the Board and (2) upon such date the Members other than Grantor do not have a sufficient percentage of the voting power of the Association to elect at least one Director through the foregoing cumulative voting procedure, such notice shall also provide for the following special election procedure. Election of one (1) Director shall be apportioned equally to the Members other than Grantor. Any person shall be a 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. A majority of the Members other than Grantor shall determine the special election procedure. The votes cast by the Members other than Grantor shall be counted by the Board of Directors.

Section 4.06. 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. A pro forma operating statement (Budget) for each Fiscal Year shall be distributed to the Members not less than sixty (60) days before the beginning of the Fiscal Year. A balance sheet and an operating (income) statement for the Association shall be prepared as of an accounting date which shall be the last day of the month closest in time to six (6) months following the date of the first Close of Escrow for the sale of a Condominium in the Project and shall be distributed to each Member (and to any institutional first Mortgagee of a Condominium in the Project upon request), within sixty (60) days of such accounting date. Such operating statement shall include a schedule of assessments received or receivable itemized by Unit number and by the name of the person or entity assessed. Thereafter, the Board shall prepare and distribute to each Member (and to any institutional first Mortgagee of a Condominium in the Project upon request), within ninety (90) days of the last day of the Association's Fiscal Year, an annual report as provided in the Declaration.

All books, records and papers of the Association shall be made available for inspection and copying by any Member, prospective purchaser of a Condominium in the Project, and any beneficiary, insurer, and guarantor of a first Mortgage, or their duly appointed representatives at the principal office of the Association or at such other place within the Property as the Board may prescribe. The Board shall establish reasonable rules with respect to (1) notice to be given to the custodian of the records by the Member desiring to make the inspection, (2) hours and days of the week when such an inspection may be made and (3) payment of the cost of reproducing copies of documents requested by a Member. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association, and the physical properties owned or controlled by the Association. The right of the inspection by a Director shall include the right to make extracts and copies of documents.

Section 4.07. Vacancies. Vacancies in the Board of Directors caused by any reason other than the removal of a Director by a vote of the Members of the Association shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum. Any vacancy caused by the removal of a Director may be filled by the vote of the majority of the remaining Directors but only with the approval, by vote or written consent, of a majority of the voting power of the Association residing in Members other than Grantor. Each person so elected shall be a Director until a successor is elected at the next annual meeting of the Members of the Association, or at a special meeting of the Members called for that purpose. A vacancy or vacancies shall be deemed to exist in case of death, resignation, removal or judicial adjudication of mental incompetency of any Director, or in case the Members fail to elect the full number of authorized Directors at any meeting at which such election is to take place. Any vacancy not filled by the Directors may be filled by vote of the Members at a special meeting of the Members called for such purpose.

Section 4.08. Removal of Directors. At any regular or special meeting of the Members duly called, any one individual Director or the entire Board may be removed prior to the expiration of their terms of office with or without cause as follows: (i) for so long as fewer than fifty (50) Condominiums are included within the Project, by the vote of Members representing a majority of the total voting power of the Association (including votes attributable to Grantor), and (ii) once fifty (50) or more Condominiums are included within the Project, by the vote of Members representing a majority of a quorum of Members. Notwithstanding the foregoing, if the entire Board of Directors is removed by a group pursuant to a simple vote, no individual Director shall be removed if the number of votes cast against his removal would be sufficient to elect such 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. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting. 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 of Members other than Grantor pursuant to Section 4.05 of this Article IV may be removed from office prior to the expiration of his term of office only by the vote of at least a simple majority of the voting power residing in Members other than Grantor.

Section 4.09. Organization Meeting of Board. The first regular ("organization") meeting of a newly elected Board of Directors shall be held within ten (10) days of election of the Board, at such place as shall be fixed and announced by the Directors at the meeting at which such Directors were elected, for the purpose of organization, election of officers and the transaction of other business. No notice shall be necessary to the newly elected Directors in order legally to constitute such meeting; provided that (1) a majority of the whole Board shall be present when the time and place are announced at the membership meeting and (2) the meeting is held on the same day and at the same place as the meeting of the Members at which the newly constituted Board was elected.

Section 4.10. Regular Meetings of Board. Regular meetings of the Board of Directors shall be open to all Members, provided that Members who are not Directors may not participate in any deliberation or discussion at such regular meetings unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Regular meetings may be held at such time and place within the Project as shall be determined, from time to time, by a resolution adopted by a majority of a quorum of the Directors; provided, however, that such meetings shall be held no less frequently than quarterly. Notice of the time and place of regular meetings of the Board of Directors shall be given to each Director, personally or by mail, telephone or telegraph, and posted at a prominent place or places within the Common Property at least four (4) days prior to the date named for such meeting.

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 deliberation or discussion at such special meetings, unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Special meetings may be called by the President or by any two (2) Directors. At least 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 Common Property in the same manner as prescribed for regular meetings. If served by mail, each such notice shall be sent, postage prepaid, to the address of each Director reflected on the records of the Association, and shall be deemed given, if not actually received earlier, at 5:00 o'clock p.m. on the second day after it is deposited in a regular depository of the United States mail as provided herein. Whenever any Director has been absent from any special meeting of the Board, an entry in the Minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such Director, as required by law and as provided herein.

Section 4.12. Waiver of Notice. Before or at any meeting of the Board of Directors, any Director may, in writing, waive personal notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice to such Director. Attendance by a Director at any meeting of the Board shall be a waiver by him of personal notice 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 be 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 Common 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 the acts of the majority

of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors, there is less than a quorum present, the majority of those present may adjourn the meeting from time to time. At any such adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice.

The Board of Directors 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 orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

Section 4.15. Fidelity Bonds. The Board of Directors may require that all officers and employees of the Association handling or responsible for Association funds shall furnish adequate fidelity bonds. The premiums on such bonds shall be paid by the Association.

Section 4.16. Committees. The Board of Directors, by resolution, may from time to time designate such committees as it shall desire, and may establish the purposes and powers of each such committee created. The resolution designating and establishing the committee shall provide for the appointment of its members, as well as a chairman, shall state the purposes of the committee, and shall provide for reports, termination, and other administrative matters as deemed appropriate by the Board.

ARTICLE V

OFFICERS

Section 5.01. Designation. The principal officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer, and an Assistant Secretary, and such other officers as in their judgment may be necessary. Officers other than the President need not be Directors. 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 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

d .e of receipt of such notice or at any later time specified therein; and unless otherwise specified in said notice, acceptance of such resignation by the Board shall not be necessary to make it effective.

Section 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 course of the Association's business unless such compensation is approved by the vote or written consent of Members representing at least a majority of the voting power of the Association; and provided further, that (1) nothing herein contained shall be construed to preclude any officer from serving the Association in some other capacity and retaining compensation therefor, and (2) any officer may be reimbursed for his actual expenses incurred in the performance of his duties. Appointment of any officer, agent, or employee shall not of itself create contractual rights of compensation for services performed by such officer, agent, or employee. Notwithstanding the foregoing, no officer, employee or director of Grantor or any affiliate of Grantor may receive any compensation.

Section 5.05. 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 an Association, including but not limited to the power, subject to the provisions of Article IV, Section 4.16, to appoint committees from among the Members from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Association. The President shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business of the Association. The President shall be ex officio a member of all standing committees, and he shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws 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 or disabled or whenever the President refuses or is unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other member of the Board to 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 of the Association.

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 Members of the Association and of the Board of Directors required by these Bylaws or

by law to be given. The Secretary shall maintain a record book of Owners, listing the names and addresses of Owners, as furnished to the Association, and such books shall be changed only at such time as satisfactory evidence of a change in ownership of a Condominium is presented to the Secretary. 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 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, tax records and business transactions of the Association, including accounts of all assets, liabilities, receipts and disbursements in books belonging to the Association. The Treasurer shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time to time be designated by the Board of Directors. The Treasurer shall disburse the funds of the Association as may be ordered by the Board of Directors, in accordance with the Declaration, shall render to the President and Directors, upon request, an account of all of his transactions as Treasurer and of the financial conditions of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

ARTICLE VI

OBLIGATIONS OF THE 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. Maintenance and Repair.

(a) Every Member must perform promptly, at his sole cost and expense, such maintenance and repair work within his own Residence, as required under the provisions of the Declaration. As further provided in the Declaration, all plans for alterations and repair of structural or utility bearing portions of the buildings housing the Units must receive the prior written consent of the Architectural Committee. The Architectural Committee shall establish reasonable procedures for the granting of such approval, in accordance with the Declaration.

(b) As further provided in the Declaration, each Member shall reimburse the Association for any expenditures incurred in repairing or replacing any portion of the Common Property, which is damaged through the fault of such Member or his family, guests, tenants or invitees. Such expenditures shall include all court costs and reasonable attorneys' fees incurred in enforcing any provision of these Bylaws or the Declaration.

ARTICLE VII

AMENDMENTS TO BYLAWS

These Bylaws may be amended by the Association by the vote or written consent of Members, representing at least (1) a majority of the voting power of each class of the Members, and (2) a majority of the voting power of the Association residing in members other than Grantor; provided that the specified percentage of each class of the Members necessary to amend a specific Section or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision. The prior written approval of beneficiaries of seventy-five percent (75%) of all first Mortgages on Condominiums in the Project must be secured before any amendment to the provisions of these Bylaws affecting matters delineated in Article XII and Section 13.02 of the Declaration may take effect, and this sentence may not be amended without such prior written approval. Notwithstanding the foregoing, if 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 thirty (30) days of the mailing of such request by the Board, such first Mortgagee shall be deemed to have approved the proposed amendment or amendments.

ARTICLE VIII

MORTGAGEES

Section 8.01. Notice to Association. Every Member who mortgages his Condominium shall notify the Association through the Manager or through the Secretary in the event there is no Manager, of the name and address of his Mortgagee, and the Association shall maintain such information in a book entitled "Mortgagees of Condominiums." Upon request, 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 the Association shall at the request of a Mortgagee of a Condominium, report any unpaid assessments due from the Unit Owner of such Condominium, in accordance with the provisions of the Declaration.

ARTICLE IX

CONFLICTING PROVISIONS

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

ARTICLE X

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Board may authorize the Association to pay expenses incurred by, or to satisfy a judgment or fine levied against, any present or former Director, officer, 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 payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Association, shall be signed or endorsed by such person or persons, and 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 officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Association, and such authority may be general or confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent, 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 Members and all beneficiaries, insurers and guarantors of first Mortgages in accordance with Article IV, Section 4.06 hereof.

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 book containing the name and address of each Member. Termination or transfer of membership shall be recorded in the book, together with the date on which 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, these Bylaws or the Rules and Regulations of the Association, 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 herein-after provided, and upon an affirmative vote of a majority of all Directors on the Board, to take any one (1) or more of the following actions: (1) levy a Special Assessment as provided in the Declaration; (2) suspend or condition the right of said Member to use any recreational facilities owned, operated or maintained by the Association; (3) suspend said Member's voting privileges as a Member, as further provided in the Declaration; or (4) record a notice of noncompliance encumbering the 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 Rules and Regulations of the Association, 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 Rules and Regulations of the Association, before that Member may resort to a court of law for relief with respect to any alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association by another Member, provided that the foregoing limitation pertaining to exhausting administrative remedies shall not apply to the Board or to any Member where the complaint alleges nonpayment of Annual Assessments, Special Assessments, Capital Improvement Assessments or Reconstruction 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 Special 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, the Rules and Regulations of the Association 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 _____ 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 names 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 thirty (30) days after the Complaint is mailed or delivered to the respondent as provided in Section 12.02 of this Article XII. The notice to the respondent shall be substantially in 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 Lake Grove Homeowners Association at _____ on the _____ day of _____, 19____, at the hour of _____ upon the charges made in the Complaint served upon you. You may be present at the hearing, may but need not be represented by counsel, 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 this notice affording the Member a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of notice, and the invitation to be heard 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 such notice. The notice requirement shall be deemed satisfied if a violator 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 Member arising from the alleged violation shall take effect prior to the expiration of (a) fifteen (15) days after the Member's receipt of the notice of hearing, and (b) five (5) days after the hearing required herein.

CERTIFICATE OF SECRETARY

1. the undersigned, do hereby certify that:

1. I am the duly elected and acting Secretary of LAKE GROVE HOMEOWNERS ASSOCIATION, a California nonprofit corporation ("Association"); and

2. The foregoing Bylaws comprising 21 pages (including this page constitute the Bylaws of the Association duly adopted at a special meeting of the Board of Directors of the Association held on _____, 19__.

IN WITNESS WHEREOF, I have hereunto subscribed my hand and affixed the seal of the Association this _____ day of _____, 19__.

Secretary

(SEAL)

EXHIBIT "C"
DRAWINGS DEPICTING RESTRICTED
COMMON AREA PARKING SPACES IN PHASE 1

EXHIBIT "C"

DRAWINGS DEPICTING RESTRICTED
COMMON AREA PARKING SPACES IN PHASE I

Those areas shown above bearing the designation "PS" are Restricted Common Area parking spaces which may be assigned for the exclusive use and benefit of Condominium Owners in Phase I and future phases of the Lake Grove Condominium Project. Restricted Common Area parking spaces are assigned to the Condominium Owners in the grant leads of _____ Condominiums

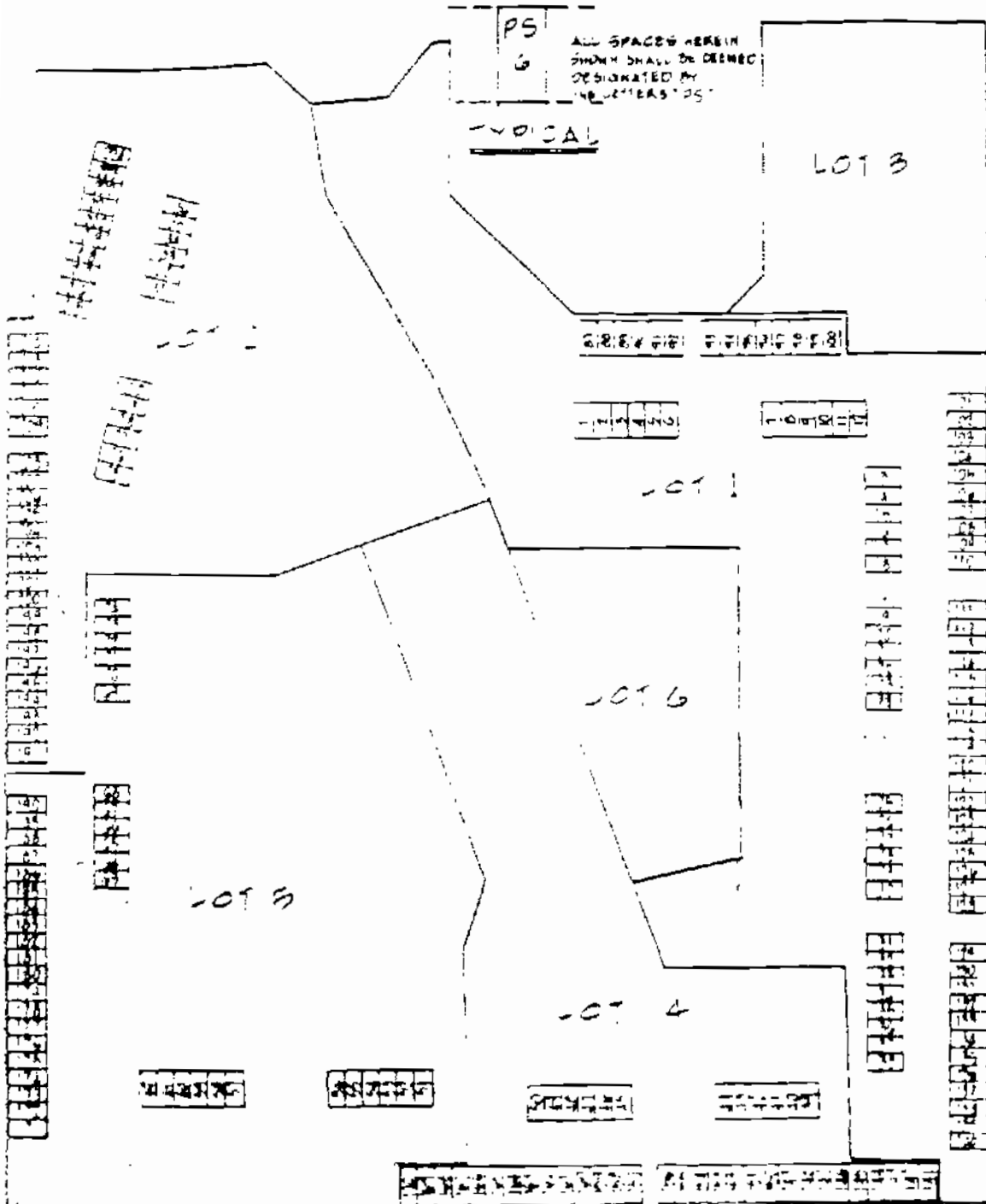


EXHIBIT "D"

LEGAL DESCRIPTION OF ANNEXABLE TERRITORY

That certain real property located in the City of Garden Grove, County of Orange, more fully described as follows:

Lots 2 through 5 of Tract No. 1200, as shown on a Subdivision Map Filed on January 6, 1983, in Book 507, at Pages 19 and 20 of Maps in the Office of the Orange County Recorder.

EXHIBIT "E"

DESCRIPTION OF ADJOINING LOT AND
ADJOINING LOT EASEMENT

EXHIBIT "B"

BYLAWS OF THE ASSOCIATION