

STERLING PLACE HOMEOWNERS ASSOCIATION

BYLAWS

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BYLAWS OF
STERLING PLACE HOMEOWNERS ASSOCIATION

ARTICLE I
NAME AND LOCATION

1.1 Name and Location. The name of the corporation is STERLING PLACE HOMEOWNERS ASSOCIATION, hereinafter referred to as the "Association." The principal office of the Association shall be located at the Project or at such other place as may be designated by the Board.

ARTICLE II
DEFINITIONS

2.1 Incorporation. The definitions contained in the Declaration are incorporated by reference herein.

2.2 Declaration. "Declaration" shall mean and refer to the Enabling Declaration Establishing A Plan For Condominium Ownership applicable to the property recorded in Santa Clara County, and subsequent amendments thereto.

ARTICLE III
MEETING OF MEMBERS AND VOTING

3.1 Annual Meeting. The first meeting of the Members, whether an annual or a special meeting, shall be held within one (1) year from the date of incorporation of the Association or within forty-five (45) days after the closing of the sale of the Project interest which represents the fifty-first (51st) percentile interest authorized for sale under the first public report for the Project whichever occurs first, but in no event later than six (6) months after the close of escrow on the sale of the first Unit in the Project. The next annual meeting shall be set by the Board so as to occur no later than ninety (90) days after the close of the Association's fiscal year. Subsequent annual meetings of the Members shall be held within thirty (30) days of the same day of the same month of each year thereafter at such time as the Board directs. If the day for the annual meeting of the Members is a legal holiday, the meeting will be held at the same hour on the first day following, which is not a legal holiday (excluding Saturday and Sunday).

3.2 Special Meetings. Special meetings of the Members shall be promptly scheduled at any time by the Board in response to the vote of a majority of the Board of Directors, or in response to a request by the Chairman of the Board, the President, or upon written request of the Members representing five percent (5%) of the total voting power of the Association. If the Association is the obligee under a bond or other arrangement to secure performance of the commitment of the Declarant to complete Common Area improvements which have not been completed prior to the close of escrow of the sale of the first Unit, and the provisions of section 9.12 of the Declaration are applicable, a special meeting of Members may be called in accordance with the provisions of section 9.12 of the Declaration, which provisions are incorporated by reference herein.

If the Association is the obligee under a bond or other arrangement to secure performance of the commitment of the Declarant to pay Assessments on Units owned by Declarant, and the Assessments are delinquent for thirty (30) days, and the provisions of section 9.13 of the Declaration are applicable, a special meeting of Members may be called in accordance with the provisions of section 9.13 of the Declaration, which provisions are incorporated by reference herein.

3.3 Notice and Place of Meetings. Written notice of each meeting of the Members, annual or special, shall be given by, or at the direction of, the Secretary, by mailing a copy of such notice, first-class mail, postage prepaid, at least ten (10) but not more than ninety (90) days before such meeting to each First Lender requesting notice and to all Members, addressed to the Member's address last appearing on the books of the Association, or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and, in the case of a special meeting, the purpose of the meeting. If action is proposed to be taken at any meeting for approval for any of the following proposals, the notice shall also state the general nature of the proposal. Member action on such items is invalid unless the notice or written waiver of notice states the general nature of the proposal(s): (a) removing a director without cause; (b) filling vacancies in the Board of Directors by the Members; (c) amending the Articles of Incorporation; (d) approving a contract or transaction in which a director has a material financial interest. Meetings shall be held within the Project or at a meeting place within the same county, as close to the Project as possible.

3.4 Quorum. The presence either in person or by proxy, at any meeting, of Members entitled to cast fifty-one percent (51%) of the total voting power of the Association (excluding the number of votes as to which voting rights are suspended at the time of the subject meeting), shall constitute a quorum for any action except as otherwise provided in the Declaration, or these Bylaws. If, however, such quorum shall not be present or represented at any meeting, a majority of the Members entitled to vote thereat shall have power to adjourn the meeting to a date not less than five (5) days and not more than thirty (30) days later, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or be represented.

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, provided that not less than twenty-five percent (25%) of the total voting power of the Association remains present in person and/or by proxy, and provided further that any action taken shall be approved by a majority of the Members required to constitute a quorum, and that the only matters that may be voted upon at said adjourned meeting are matters the general nature of which was noticed not less than ten (10) nor more than ninety (90) days before the date of the meeting to each Member entitled to vote at the meeting. 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 annual meetings.

Notwithstanding anything herein to the contrary, for purposes of obtaining membership approval of special Assessments or increases in annual Assessments as may be required by section 4.4 of the Declaration, a "quorum" means more than fifty percent (50%) of the Members of the Association.

3.5 Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary before the appointed time of each meeting. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his Unit, or upon receipt of written notice by the Secretary of the Board of the death or judicially declared incompetence of a Member prior to the counting of the vote, or upon the expiration of eleven (11) months from the date of the proxy. Any form of proxy distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon. The proxy shall provide that, where the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy also shall identify the person or persons authorized to exercise the proxy and the length of time it will be valid. In addition, voting by proxy shall comply with any other applicable requirements of California Corporation Code §§ 7514 and 7613.

3.6 Membership and Voting. The Association shall have two (2) classes of voting membership:

Class A: Class A Members shall be all Owners with the exception of the Declarant (as defined in the Declaration) and shall be entitled to one (1) vote for each Unit owned. When more than one (1) person holds an interest in any Unit, all such persons shall be Members. The vote for such Unit shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Unit.

Class B: The Class B Member shall be the Declarant, whose voting rights shall be the same as for Class A memberships, except that the Class B Member may triple its votes for each Unit owned. The Class B membership shall cease and be converted to Class A membership upon the happening of either of the following events, whichever occurs earlier:

- (a) when the total votes outstanding in the Class A membership equal the total votes (tripled as stated above) outstanding in the Class B membership; or
- (b) on the second anniversary of the first conveyance of a subdivision interest in the Project.

During the time that there are two (2) outstanding classes of membership any action by the Association which must have the approval of the Members before being undertaken shall require the vote of a majority of a quorum of each class of membership, or written assent of a majority of each class of membership. Where the vote or written assent of each class of membership is required, any requirement that the vote of Declarant be excluded is not applicable, except as provided in the Declaration. After the conversion of Class B membership to Class A membership, any provision herein requiring the approval of Members other than Declarant, except as provided otherwise in the Declaration, shall mean the vote of a majority of a quorum, or written assent of a majority of the total voting power of the Association (including Declarant's vote(s)) and the vote of a majority of a quorum, or written assent of a majority of the total voting power of Members other than the Declarant.

3.7 Eligibility to Vote: Voting rights attributable to Units shall not vest until Assessments against those Units have been levied by the Association. Only Members in good standing shall be entitled to vote on any issue or matter presented to the Members for approval. In order to be in good standing, a Member must be current in the payment of all Assessments levied against the Member's Unit and not subject to any suspension of voting privileges as a result of any disciplinary proceeding conducted in accordance with the Declaration. A Member's good standing shall be determined as of the record date established in accordance with section 3.8. The Association shall not be obligated to conduct a hearing in order to suspend a Member's voting privileges on the basis of the nonpayment of Assessments, although a delinquent Member shall be entitled to request such a hearing. A Member shall maintain good standing if said standing has not been suspended by the provisions of these Bylaws and the Member has maintained a current filing with the Association of the following: (i) the signature or signatures of the Owner(s) authorized to vote on behalf of the Member's Lot; and (ii) address where all notices shall be sent; or, alternatively (iii) a proxy that names the Owner's representative and lists said representative's address.

3.8 Record Dates:

A. Record Dates Established by the Board: For the purpose of determining which Members are entitled to receive notice of any meeting, vote, act by written ballot without a meeting, or exercise any rights in respect to any other lawful action, the Board may fix, in advance, a "record date," and only Members of record on the date so fixed are entitled to receive notice, to vote, or to take action by written ballot or otherwise, as the case may be, notwithstanding any transfer of any membership on the books of the Association after the record date, except as otherwise provided in the Articles, by agreement, or in the California Nonprofit Mutual Benefit Corporation Law. The record dates established by the Board pursuant to this section shall be as follows:

(1) Record Date for Notice of Meetings: In the case of determining those Members entitled to notice of a meeting, the record date shall be no more than ninety (90) nor less than ten (10) days before the date of the meeting;

(2) Record Date for Voting: In the case of determining those Members entitled to vote at a meeting, the record date shall be no more than sixty (60) days before the date of the meeting;

(3) Record Date for Action by Written Ballot Without Meeting: In the case of determining Members entitled to cast written ballots, the record date shall be no more than sixty (60) days before the day on which the first written ballot is mailed or solicited; and

(4) Record Date for Other Lawful Action: In the case of determining Members entitled to exercise any rights in respect to other lawful action, the record date shall be no more than sixty (60) days prior to the date of such other action.

B. Failure of Board to Fix a Record Date: If the Board, for any reason, fails to establish a record date, the following rules shall apply:

(1) **Record Date for Notice of Meetings:** The record date for determining those Members entitled to receive notice of a meeting of Members shall be the business day preceding the day on which notice is given, or, if notice is waived, the business day preceding the day on which the meeting is held.

(2) **Record Date for Voting:** The record date for determining those Members entitled to vote at a meeting of Members shall be the day of the meeting, or in the case of an adjourned meeting, the day of the adjourned meeting.

(3) **Record Date for Action by Written Ballot Without Meeting:** The record date for determining those Members entitled to vote by written ballot on proposed Association actions without a meeting, when no prior action by the Board has been taken, shall be the day on which the first written ballot is mailed or solicited. When prior action of the Board has been taken, it shall be the day on which the Board adopts the resolution relating to that action.

(4) **Record Date for Other Lawful Action:** The record date for determining those Members entitled to exercise any rights in respect to any other lawful action shall be no more than sixty (60) days prior to the date of such other action.

(5) **"Record Date" Means as of Close of Business:** For purposes of this subparagraph B, a person holding a membership as of the close of business on the record date shall be deemed the Member of record.

3.9 Action Without Meeting. Any action that may be taken at any annual or special meeting of Members (except the election of directors) may be taken without a meeting in accordance with the provisions of California Corporations Code §§ 7513 and 7516. Any form of written ballot distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it shall not be mandatory that a candidate for election to the Board be named in the written ballot. The written ballot shall provide that, where the Member specifies a choice, the vote shall be cast in accordance with that choice.

3.10 Conduct of Meetings: Meetings of the membership of the Association shall be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedures as the Association may adopt. Notwithstanding any other provision of law, notice of meetings of the Members shall specify those matters the Board intends to present for action by the Members, but, except as otherwise provided by law, any proper matter may be presented at the meeting for action. Members of the Association shall have access to Association records in accordance with Article 3 (commencing with Section 8330) of Chapter 13 of Part 3 of Title 1 of the Corporations Code. Any Member shall be permitted to speak at a meeting of the Association Members; however, the Board of Directors may establish a reasonable time limit for Members to speak before a meeting of the Association Members.

ARTICLE IV
BOARD OF DIRECTORS; SELECTION; TERM OF OFFICE

4.1 General. The activities and affairs of this Association shall be administered and overseen by, and the powers of the Association exercised under the direction of, a Board of Directors. The Board may delegate the management activities to any management company or a managing agent, provided, however, that the activities and affairs of the Association shall be directed, overseen and managed, and the corporate powers exercised, under the ultimate direction of the Board.

4.2 Number. The affairs of this Association shall be managed by a Board of three (3) directors, all of whom must be Members of the Association, or an officer, director, employee or agent of a Member, including Declarant. The initial directors shall be elected by the Sole Incorporator and shall hold office until the first meeting of the Members as described in section 3.1 and until their successors are elected. All directors must be resident Owners (not absentee Owners) except for the initial directors elected by the Sole Incorporator, and directors nominated by Declarant or Declarant's authorized agent.

4.3 Term of Office. At the first meeting of the Association the Members shall elect three (3) directors for a term of one (1) year, and at each annual meeting thereafter the Members shall elect three (3) directors for a term of one (1) year. Unless vacated sooner, each director shall hold office until the director's term expires and a successor is elected.

4.4 Removal; Vacancies. Unless the entire Board is removed from office by the vote of Association Members, an individual director shall not be removed prior to the expiration of his term of office if the votes cast against his removal would be sufficient to elect him 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 directors were then being elected. A director who was elected solely by the votes of Members other than Declarant may be removed from office prior to the expiration of his term only by the votes of a majority of Members other than Declarant. In the event of death or resignation of a director, the vacancy shall be filled by approval of the Board at a duly held meeting, or by the sole remaining director. The successor director shall serve for the unexpired term of his predecessor. The Members may elect a director at any time to fill any vacancy not filled by the directors. A vacancy created by removal of a director can be filled only by election of the Members.

4.5 Compensation. No director shall receive compensation for any service rendered to the Association. However, any director may be reimbursed for his actual expenses, if reasonable, that are incurred in the performance of his duties.

4.6 Indemnification of Corporate Agents. The Association shall indemnify any present or former director, officer, employee or other agent of the Association to the fullest extent authorized under California Corporations Code §7237, or any successor statute, and may advance to any such person funds to pay expenses that may be incurred in defending any action or proceeding on receipt of an undertaking by or on behalf of such person to repay such amount unless it is ultimately determined that such person was entitled to indemnification under this provision.

ARTICLE V NOMINATION AND ELECTION OF DIRECTORS

5.1 Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Notice to the Members of the meeting shall include the names of all those who are nominees at the time the notice is sent. 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 of Directors, and two (2) or more Members of the Association. The Nominating Committee shall be appointed by the Board of Directors not less than thirty (30) days prior to each annual meeting of the Members, to serve until the close of such annual meeting. The Nominating Committee shall make as many nominations for election to the Board of Directors as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. All candidates shall have reasonable opportunity to communicate their qualifications to Members and to solicit votes.

5.2 Election. The first election of the Board shall be conducted at the first meeting of the Association. At such election the Members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected. All Members shall be entitled to cumulate their votes for one (1) or more candidates for the Board, if the candidate's name has been placed in nomination prior to voting, and if a Member has given notice at the meeting prior to the voting of his intention to cumulate votes. Voting for directors shall be by secret written ballot. So long as a majority of the voting power of the Association resides in the Declarant, or so long as there are two (2) outstanding classes of membership in the Association, at least one (1) and not less than twenty percent (20%) of the incumbents on the Board shall have been elected solely by the votes of the Owners other than the Declarant, in accordance with the following special procedure. The collected ballots shall be segregated between ballots cast by Declarant, and ballots cast by other Members. The ballots received from other Members shall be counted first, and the person receiving the greatest number of votes from such Members shall be elected to the Board. The votes of Declarant shall then be added to the totals, and the persons receiving the highest number of votes (other than the person already elected) shall be elected to the remaining positions on the Board.

ARTICLE VI MEETINGS OF DIRECTORS

6.1 Regular Meetings. Regular meetings of the Board of Directors shall be held at least quarterly at such place within the Project, and at such hour as may be fixed from time to time by resolution of the Board. If a larger meeting room is required than exists within the Project, the Board shall select a room as close as possible to the Project. 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, excluding Saturday and Sunday. Notice of the time and place of the meeting shall be posted at a prominent place within the Common Area or mailed to any Member who had requested notification of Board meetings, at the address requested by the Member. Notice may also be given, by mail or delivery of the notice to each Unit in the Project or by newsletter or similar means of communication and shall be communicated to Directors and Members not less than four (4) days prior to the meeting. Notice of any meeting need not be given to any director who has signed a waiver of notice or a written consent to holding of the meeting.

6.2 Special Meetings. Special meetings of the Board of Directors shall be held when called by written notice signed by the President, Vice President or Secretary of the Association, or by any two (2) directors. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be given to each director by one (1) of the following methods: (a) by personal delivery; (b) written notice by first-class mail, postage prepaid; (c) by telephone communication, either directly to the director or to a person at the director's office who would reasonably be expected to communicate such notice promptly to the director; or (d) by telegram, facsimile or electronic mail. Such notice shall be posted or communicated in a manner prescribed for notice of regular meetings and shall be sent to all directors not less than four (4) days prior to the scheduled time of the meeting. All Members shall be given notice of the time and place of a special meeting, except for an emergency meeting, at least four days prior to the meeting. Notice of the special meeting may be given by posting the notice in a prominent place or places within the Common Area, and by mail to any Member who had requested notification of Board meetings, at the address requested by the Member. Notice may also be given, by mail or delivery of the notice to each Unit in the Project or by newsletter or similar means of communication and shall be communicated to Directors and Members not less than four (4) days prior to the meeting. Notices sent by first-class mail shall be deposited into a United States mailbox at least six (6) days before the time set for the meeting.

6.3 Emergency Meetings. An emergency meeting of the Board of Directors may be called by the president, or by any two directors other than the president, if there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Board, and which of necessity make it impracticable to provide the notices required by section 6.1. Notice to Members of an emergency meeting is not required.

6.4 Quorum. A majority of the directors then in office (but not less than two (2)) shall constitute a quorum for the transaction of business. Every act performed or decision 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. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, provided at least two (2) directors are present, if any action taken is approved by a majority of the required quorum for that meeting.

6.5 Open Meetings. Except as provided in section 6.6 and 6.7, all meetings of the Board shall be open to all Members, but Members other than directors may not participate in any discussion or deliberation unless expressly so authorized by a majority of a quorum of the Board. However, the Board shall establish a reasonable time limit for all Members of the Association to speak to the Board of Directors at any meeting of the Board of Directors, and permit any Member of the Association to speak at any meeting of the Board of Directors within such time limit.

6.6 Executive Session. The Board may, with approval of a majority of its members present at a meeting in which a quorum for the transaction of business has been established, or, if all members of the governing body are present, by a majority vote of the members, adjourn a meeting and reconvene in executive session to discuss and vote upon litigation, matters relating to the formation of contracts with third parties, Member discipline, personnel matters, or to meet with a Member, upon the Member's request, regarding the Member's payment of assessments, as specified in Civil Code sections 1367 or 1367.1. 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

immediately following meeting that is open to the entire membership. The Board shall meet in executive session, if requested by a Member who may be subject to a fine, penalty, or other form of discipline, and the Member affected shall be entitled to attend the executive session. The Board may hold an executive session emergency meeting if circumstances require, as authorized by section 6.3.

6.7 Telephone/Electronic Meetings. Any meeting, regular or special, may be held by conference telephone, electronic video screen, or other communication equipment, so long as all of the following apply:

A. Each Director participating in the meeting can communicate with all of the other members concurrently.

B. Each Director is provided the means of participating in all matters before the Board, including, without limitation, the capacity to propose, or to interpose an objection to a specific action to be taken by the corporation.

C. The Board adopts and implements some means of verifying both of the following:

(i) A person participating in the meeting is a director or other person entitled to participate in the Board meeting;

(ii) All actions of, or votes by, the Board are taken or cast only by the directors and not by persons who are not directors.

Arrangements shall be made to enable any Member who desires to listen to the telephone/electronic meeting of the Board, to be able to do so. The minutes of the meeting shall state that those participating in the meeting were recognized to be directors or other persons authorized to participate in the meeting. An explanation of the action taken shall be posted at a prominent place within the Common Area within three (3) days after the meeting. If the Common Area consists of an easement or is otherwise unsuitable for posting the explanation of the action taken, the Board shall communicate said explanation by any means it deems appropriate.

6.8 Waiver of Notice. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if (a) a quorum is present, and (b) either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

6.9 Notice of Adjourned Meeting. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case personal notice of the time and place shall be given before the time of the adjourned meeting to the directors who were not present at the time of the adjournment, and shall be posted at a prominent place within the Common Area. If the Common Area consists only of an easement or is otherwise unsuitable for posting of such notice, the Board shall communicate the notice of the time and place of such meeting by any means it deems appropriate.

6.10 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting (and without notice to Members provided for in section 6.2), if all members of the Board, individually or collectively, consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. An explanation of the action taken shall be posted at a prominent place or places within the Common Area within three (3) days after the written consents of all Board members have been obtained.

6.11 Definition of Meeting. "Meeting" includes any congregation of a majority of the members of the Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Board, except those matters that may be discussed in executive session. Civ

6.12 Availability of Minutes: The minutes, or minutes proposed for adoption that are marked to include draft status, or a summary of 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 shall be distributed to any Member on request and on reimbursement of the Association's costs in making that distribution.

ARTICLE VII **POWERS AND DUTIES OF THE BOARD OF DIRECTORS**

7.1 Duties. The Board of Directors shall undertake and fulfill the following duties:

A. Adopt Policies: The Board shall adopt policies of the Association which shall consist of such resolutions adopted by the Board of Directors that fulfill the purposes of the Association. Said policies will serve the membership and management as the statement of the specific objectives and purposes for which the Association exists.

B. Oversight and Review of Administration of Association Affairs. The Board shall review and direct the officers and Managing Agent of the Association to assure that the policies of the Association are being accomplished in a reasonable and prudent manner and that the requirements for operation of the Project as set forth in the Project Documents and the laws applicable to the Project are fulfilled to the extent reasonable and appropriate.

C. Supervision: The Board shall supervise all officers, agents and employees of the Association to see that their duties are properly performed;

7.2 Powers. The Board of Directors shall have power to:

A. Manager: Employ a manager or managing agent ("Managing Agent") as provided in section 5.2C of the Declaration.

B. Adoption of Rules: Adopt Rules in accordance with section 5.2D of the Declaration.

C. Assessments, Liens and Fines. Levy and collect Assessments and impose fines as provided in section 5.2F of the Declaration. If the Association adopts or has adopted a policy imposing any monetary penalty, including any fee, on any Association Member for a violation of the governing documents or rules of the Association, 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, which shall be in accordance with authorization for Member discipline contained in the governing documents. The Board shall not be required to distribute any additional schedules of monetary penalties unless there are changes from the schedule that was adopted and distributed to the Members pursuant to this section.

D. Enforcement (Notice and Hearing): Enforce these Bylaws and/or the Declaration. When the Board is to meet to consider or impose discipline upon a Member, the Board shall notify the Member in writing, by either personal delivery or first-class mail, at least fifteen (15) days prior to the meeting. The notification shall contain, at a minimum, the date, time, and place of the meeting, the nature of the alleged violation for which a Member may be disciplined, and a statement that the Member has a right to attend and may address the Board at the meeting. The Board shall meet in executive session if requested by the Member being disciplined.

If the Board imposes discipline on a Member the Board shall provide the Member a written notification of the disciplinary action, by either personal delivery or first-class mail, within 15 days following the action. A disciplinary action shall not be effective against a Member unless the Board fulfills the requirements of this section.

Under no circumstances may the Association cause a forfeiture or abridgement of an Owner's right to the full use and enjoyment of the Owner's Unit on account of the failure of the Owner to comply with the provisions of the Declaration, Articles, Bylaws or Rules, except by judgment of a court or decision of an arbitrator, or on account of a foreclosure or a sale under power of sale for failure of the Owner to pay assessments due or levied by the Association.

E. Contracts: Contract for goods and/or services in accordance with section 5.2K of the Declaration, and section 7.3A of the Bylaws.

F. Delegation: Delegate its authority and powers to officers or employees of the Association or to a Managing Agent employed by the Association. The Board may not delegate the authority: (i) to make expenditures for capital additions or improvements chargeable against the reserve funds; (ii) to conduct hearings concerning compliance by an Owner or his tenant, lessee, guest or invitee with the Declaration or Rules and regulations promulgated by the Board; (iii) to make a decision to levy monetary fines, impose special Assessments against individual Units, temporarily suspend an Owner's rights as a Member of the Association or otherwise impose discipline following any such hearing; (iv) to make a decision to levy annual or special Assessments; or (v) to make a decision to bring suit, record a claim of lien, or institute foreclosure proceedings for default in payment of Assessments. Any delegation shall be revocable by the Board at any time. The members of the Board, individually or collectively, shall not be liable for any omission or improper exercise by the Managing Agent of any such duty, power or function so delegated by written instrument executed by a majority of the Board.

G. Appointment of Trustee: Appoint a trustee to enforce assessment liens by power of sale as provided in the Declaration and in California Civil Code § 1367(b).

H. Other Powers: In addition to any other power contained herein, the Association may exercise the powers granted to a nonprofit mutual benefit corporation as enumerated in California Corporations Code § 7140.

7.3 Prohibited Acts. The Board shall not take any of the following actions, except with the vote at a meeting of the Association, or by written ballot without a meeting pursuant to Corporations Code § 7513, of a simple majority of the Members, other than the Declarant:

A. Entering into a contract with a third person wherein the third person will furnish goods or services for the Common Area or the Association for a term longer than one (1) year or, notwithstanding the term, where the amount to be paid to the vendor including, without limitation, amounts to be paid under contingent fee contracts, may reasonably be expected to exceed the sum of \$5,000 or five percent (5%) of the budgeted gross expenses of the Association for the fiscal year in which the contract is signed, whichever is less, and the contract is other than for the maintenance, repair, replacement or reconstruction of one or more elements of the Common Area, with the following exceptions:

(1) a management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration (if either has jurisdiction over the Project) or by the Department of Real Estate during the period the Department of Real Estate has jurisdiction over the sale of the Project pursuant to a public report;

(2) a contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate;

(3) prepaid casualty and/or liability insurance policies of not to exceed three (3) years' duration, provided that the policy permits short rate cancellation by the insured;

(4) lease agreements for laundry room fixtures and equipment of not to exceed five (5) years' duration, provided that the lessor under the agreement is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more;

(5) agreements for cable television services and equipment or satellite dish, television services and equipment of not to exceed five (5) years' duration, provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more;

(6) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services of not to exceed five (5) years' duration, provided that the supplier or suppliers are not entities in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more;

(7) a contract for a term not to exceed three (3) years that is terminable by the Association after no longer than one (1) year without cause, penalty, or other obligation upon ninety (90) days written notice of termination to the other party; and

(8) agreements for electronic communications services and equipment not to exceed five (5) years duration provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more.

B. Incurring aggregate expenditures for capital improvements to the Common Area in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year;

C. Selling during any fiscal year property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year;

D. Paying compensation to members of the Board or to the officers of the Association for services performed in the conduct of the Association's business; provided, however, that the Board may cause a member or officer to be reimbursed for the actual expenses, if reasonable, that are incurred in the performance of his duties.

ARTICLE VIII ASSOCIATION DUTIES AND RESPONSIBILITIES

8.1 Association Duties: The Association shall, as provided in these Bylaws or as the Board may otherwise direct, through its Managing Agent, undertake the following duties and responsibilities:

A. **Maintenance:** Perform the maintenance described in section 5.1A of the Declaration;

B. **Insurance:** Maintain insurance as required by section 8.1 of the Declaration. The Association shall, upon issuance or renewal of insurance, but not less than annually, notify the Members as to the amount and type of insurance carried by the Association, and it shall accompany this notification with statements (required under Civil Code § 1365(e)) to the effect that the Association is or is not insured to the levels specified by Civil Code §1365.9, and that if the Association is not so insured that Owners may be individually liable for the entire amount of a judgment, and, if the Association is insured to the levels specified in the section, then the Owners may be individually liable only for their proportional share of Assessments levied to pay the amount of any judgment which exceeds the limits of the association's insurance. The Association shall not levy any Assessment against the Members to pay the amount of any judgment against the Association without a vote approving such Assessment or written consent of a majority of the Members.

The Association shall prepare and distribute to its Members the summaries of the Association's insurance policies as required by the Civil Code § 1365(e), pursuant to Section 12.1(5).

C. **Discharge of Liens:** Discharge by payment, if necessary, any lien against the Common Area and assess the cost thereof to the Member or Members responsible for the existence of the lien (after notice and hearing as required by these Bylaws);

D. **Assessments:** Fix, levy, collect and enforce Assessments as set forth in Article IV of the Declaration;

E. Expenses and Obligations: Pay all expenses and obligations incurred by the Association in the conduct of its business including, without limitation, all licenses, taxes, or governmental charges levied or imposed against the property of the Association;

F. Enforcement: Enforce these Bylaws and the Declaration;

G. Records: Cause to be kept a complete record of all its acts and affairs and to present a statement thereof to the Members at the annual meeting of the Members, or at any special meeting when such statement is requested in writing by one-fourth (1/4) of the Class A Members; keep adequate and correct books and records of account, minutes of proceedings of its Members, Board and committees, and a record of its Members giving their names and addresses and classes of membership;

H. Contracts: Contract for goods and/or services in accordance with section 5.2K of the Declaration;

I. Financial Requirements. Comply with the Financial Requirements set forth in Article XII of these Bylaws.

ARTICLE IX OFFICERS AND THEIR DUTIES

9.1 Enumeration of Officers. The officers of this Association shall be a President and Vice President, who shall at all times be members of the Board of Directors, 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 first meeting of the Board of Directors following each annual meeting of the Members.

9.3 Term. Each officer of this Association shall be elected annually by the Board and each shall hold office for one (1) year unless he or she shall sooner resign, or is removed, or is found by the Board to be 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 (but not from the Board, if the officer is also a Board member) by the Board with or without cause. 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 **Duties.** The duties of the officers are as follows:

A. President. The President shall preside at all meetings of the Board of Directors; shall see that orders and resolutions of the Board are communicated to the Managing Agent (if any) and carried out; shall sign all leases, mortgages, deeds and other written instruments and shall sign all promissory notes. The President shall have the general powers and duties of management usually vested in the office of the President of a California nonprofit mutual benefit corporation, and shall have such powers and duties as may be prescribed by the Board or by these Bylaws;

B. 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 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 Association together with the addresses, and shall perform such other duties as required by the Board;

D. 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 of Directors; shall sign all promissory notes of the Association; shall keep proper books of account; shall prepare and shall distribute budgets and financial statements to each Member as required under these Bylaws, and by applicable laws.

ARTICLE X COMMITTEES

10.1 Architectural and Nominating Committees. An Architectural Control Committee may be appointed as provided in the Declaration and a Nominating Committee, as provided in section 5.1 of these Bylaws.

10.2 Other Committees. In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose.

10.3 Limitations on Committees. No committee, regardless of Board resolution, may: (a) take any final action on matters which, under the Nonprofit Corporation Law of California, also requires Members' approval; (b) fill vacancies on the Board of Directors or in any committee; (c) amend or repeal Bylaws or adopt new Bylaws; (d) amend or repeal any resolution of the Board of Directors; (e) appoint any other committees of the Board of Directors or the members of those committees; (f) approve any transaction to which the Association is a party and in which one (1) or more directors have a material financial interest.

10.4 Purpose of Committees. The purpose of all committees shall be to assist the Board of Directors in the development of policies and to assist in the oversight and assessment of the Association policies. No committee shall be assigned, delegated or chartered in any manner which would authorize them to take final action in the name of the Association. No committee, officer of a committee or member of the committee shall take any action that is assigned to the Office of the President or other

Officers of the Association. All committees shall report to the Board and shall serve at the pleasure of the Board. Committees of the Board shall not have authority to direct contractors, agents or Officers of the Association.

ARTICLE XI BOOKS AND RECORDS

11.1 Inspection by Members. The membership register (including names, mailing addresses, telephone numbers and voting rights), accounting books and records and minutes of meetings of the Members, of the Board (and including drafts and summaries), and of committees shall be made available for inspection and copying by any Member of the 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 Association or at such other place within the Project as the Board shall prescribe. Board minutes, proposed minutes or draft or summary thereof (other than those from an executive session) shall be available to Members within thirty (30) days of the meeting, and shall be distributed to any Member upon request and upon reimbursement of the costs in making that distribution.

11.2 Rules for 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;
- C. Payment of the cost of reproducing copies of documents requested by a Member.

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

11.4 Documents Provided by Association: Upon written request, the Association, through the Managing Agent, or if there is no Managing Agent, through the Secretary, shall, within ten (10) days of the mailing or delivery of such request, provide the Owner of a Unit with a copy of the governing documents of the Project, a copy of the most recent budget and statements of the Association distributed pursuant to section 12.1 together with a true statement in writing from an authorized representative of the Association as to the amount of the Association's current regular and special Assessments and fees, as well as any Assessments levied upon the Owner's interest which are unpaid on the date of the statement, including late charges, interest, and costs of collection which, as of the date of the statement, are or may be made a lien upon the Owner's Condominium. The Board may impose a fee for providing the foregoing which may not exceed the reasonable cost to prepare and reproduce the requested documents.

ARTICLE XII FINANCIAL AND REPORTING REQUIREMENTS

12.1 Budgets, Financial Statements and Reports. The Association shall cause to be prepared and distributed budgets, financial statements, and reports to each Member as follows:

(1) A pro forma operating budget in accordance with Civil Code section 1365 for each fiscal year shall be distributed not less than thirty (30) nor more than ninety (90) days before the beginning of the fiscal year consisting of at least the following:

(a) Estimated revenue and expenses on an accrual basis;

(b) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to section 12.2, based only on assets held in cash or cash equivalents, which shall be printed in bold type and include all of the following:

(i) The current estimated replacement cost, estimated remaining life, and estimated useful life of each Major Component;

(ii) As of the end of the fiscal year for which the study is prepared:

(A) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the Major Components;

(B) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain Major Components;

(C) If applicable, the amount of funds received from either a compensatory damage award or settlement to the Association from any person or entity for injuries to property, real or personal, arising out of any construction or design defects, and the expenditure or disposition of funds, including the amounts expended for the direct and indirect costs of repair of construction or design defects. These amounts shall be reported at the end of the fiscal year for which the study is prepared as separate line items under cash reserves pursuant to clause (B). In lieu of complying with this requirement, the Association may include in the review of its financial statement pursuant to Paragraph 2 (d), below, a statement containing all of the foregoing information.

(D) The percentage that accumulated cash reserves actually set aside is of the current estimate of cash reserves necessary.

(c) A statement as to: (1) whether the Board has determined or anticipates that the levy of one or more special Assessments will be required to repair, replace, or restore any Major Component or to provide adequate reserves therefor. If so the statement shall also set out the estimated amount, commencement date and duration of the Special Assessment; and (2) the mechanism or mechanisms by the Board will fund reserves to repair or replace Major Components, including Assessments, borrowing, use of other assets, deferral of selected replacement or repairs, or alternative mechanisms.

(d) A general statement setting forth the procedures used in the calculation and establishment of those reserves to defray the future repair, replacement or additions to those Major Components that the Association is obligated to maintain. The report shall include, but shall not be limited to, reserve calculations made using the formula described in paragraph (4) of the subdivision (b) of Civil Code section 1365.2.5, and may not assume a rate of return on cash reserves in excess of 2 percent above the rediscount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made.

In lieu of the distribution of the pro forma operating budget, the Board may elect to distribute a summary of the items described hereinabove to all the Members, with written notice that the budget is available at the business office of the Association or at another suitable location within the boundaries of the development, and that copies will be provided upon request and at the expense of the Association. Members shall be notified in writing at the time that the pro forma budget is distributed, or at the time of any general mailing to the entire membership, of their right to have copies of the minutes of meetings, and how and where those minutes may be obtained. If any Member requests a copy of the pro forma operating budget, including the items referred to above, to be mailed to the Member, the Association shall provide the copy to the Member by first-class United States mail at the expense of the Association and delivered within five (5) days. The written notice that is distributed to each of the Association Members shall be in at least 10-point bold type on the front page of the summary of the statement:

(2) A report consisting of the following shall be distributed within one hundred twenty (120) days after the close of the fiscal year: (a) a balance sheet as of the end of the fiscal year; (b) an operating (income) statement for the fiscal year; (c) a statement of changes in financial position for the fiscal year; (d) for any fiscal year in which the gross income to the Association exceeds Seventy-Five Thousand Dollars (\$75,000), a copy of a review of the financial statement of the Association prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy; (e) any information required to be reported under section 8322 of the California Corporations Code;

(3) If the report referred to in (2) above is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association that the statement was prepared from the books and records of the Association without independent audit or review;

(4) A statement describing the Association's policies and practices in enforcing lien rights, foreclosures, or other legal remedies for default in payment of its Assessments against its Members, and a statement of the place where the names and addresses of the current Members are located shall be distributed annually to the Members, and to any First Lender who has requested a copy, distributed annually not less than thirty (30) nor more than ninety (90) days before the beginning of the fiscal year. The notice shall be printed in at least 12-point type.

(5) A summary of the Association's insurance policies as set forth in and required by Civil Code § 1365(e)(1) shall be distributed to the Members annually not less than thirty (30) nor more than ninety (90) days before the beginning of the fiscal year. The summary shall contain in at least 10-point bold face type the following statement:

This summary of the Association's policies of insurance provides only certain information as required by subdivision (e) of §1365 of the Civil Code and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association member, upon request and reasonable notice, may review the Association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property, or real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage.

(6) The Board shall comply with the requirements of California civil Code section 1369.590 by providing Members of the Association annually with a summary of the provisions of Article 2 (commencing with Civil Code section 1369.510) of Chapter 7 of Title 6 (Division 2, Part 4) of the California Civil Code, including the following language. "Failure of a member of the association to comply with alternative dispute resolution requirements of Section 1369.520 of the Civil Code may result in the loss of your right to sue the association or another member of the association regarding enforcement of the governing documents or the applicable law."

(7) The Board shall comply with the requirements of California Civil Code § 1365.1 by distributing a written notice as described in subdivision (b) of Civil Code § 1365.1 entitled "Notice Assessments and Foreclosure" to each Member of the Association during the 60-day period immediately preceding the beginning of the Association's fiscal year. The notice is to be printed in at least 12-point type.

(8) The Board shall annually provide the Members with notice of any requirements for Association approval of physical changes to Units and Common Areas. The notice shall describe the types of changes that require Association approval and shall include a copy of the procedure used to review and approve or disapprove a proposed change.

12.2 Reserve Studies. At least every three years the Board shall cause a study of the reserve account requirements of the Project to be conducted, including a reasonably competent and diligent visual inspection of the accessible areas of the Major Components which the Association is obligated to repair, replace, restore or maintain, if the current replacement value of said Major Components is equal to or greater than one-half of the gross budget of the Association, excluding the Association's reserve account for that period. The Board shall review this study, or cause it to be reviewed, annually and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review.

The study required by this section shall at a minimum include:

(1) Identification of the Major Components which the Association is obligated to repair, replace, restore, or maintain, which as of the date of the study have a remaining useful life of less than thirty (30) years;

(2) Identification of the probable remaining useful life of the components identified in paragraph (1) as of the date of the study;

(3) An estimate of the cost of repair, replacement, restoration, or maintenance of each Major Component identified in paragraph (1) during and at the end of its useful life; and

(4) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain each Major Component during and at the end of its useful life, after subtracting total reserve funds as of the date of the study.

As used in this section 12.2, the definition of reserve account shall mean both: (a) monies that the Association's Board of Directors has identified for use to defray the future repair or replacement of, or additions to, those Major Components which the Association is obligated to maintain; and (b) funds received but not expended or disposed from either a compensatory damage award or settlement to the Association from any person or entity for injuries to property, real or personal, arising from any construction or design defects, which funds shall be separately itemized from funds described as the items in (a) above.

As used in this section, "reserve account requirements" means the estimated funds which the Board has determined are required to be available at a specified point in time to repair, replace, or restore those Major Components which the Association is obligated to maintain.

12.3 Reserve Account Fund Management: The Board shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of Major Components which the Association is obligated to repair, restore, replace, or maintain ("Association Major Components") and for which the reserve fund was established, or litigation involving Association Major Components. However, the Board may authorize the temporary transfer of moneys from a reserve fund to the Association's general operating fund to meet short-term cash-flow requirements or other expenses, if the Board has provided notice of the intent to consider the transfer in a notice of meeting which shall be provided as specified in Civil Code section 1363.05, which notice shall include the reasons the transfer is needed, some options for repayment, and whether a Special Assessment may be considered. If the Board authorizes the transfer, the Board shall issue a written finding recorded in the minutes of the Board explaining the reason that the transfer is needed, and describing when and how the money will be repaid to the reserve fund. The transferred funds shall be restored to the reserve fund within one (1) year of the date of the initial transfer, except that the Board may, after giving the same notice required for considering a transfer, and, upon making a finding supported by documentation that a delay would be in the best interests of the Project, delay the restoration until the time which the Board reasonably determines to be necessary. The Board shall exercise prudent fiscal management in maintaining the integrity of the reserve account, and shall, if necessary, levy a special Assessment to recover the full amount of the expended funds within the time limits required by this section. This special Assessment is subject to the limitation imposed by section 4.4 of the Declaration. The Board may, at its discretion, extend the date the payment on the Special Assessment is due. Any extension shall not prevent the Board from pursuing any legal remedy to enforce the collection of an unpaid Special Assessment. When the decision is made to use reserve funds or to temporarily transfer money from the reserve fund to pay for litigation, the Association shall notify the Members of the Association of that decision in the next available mailing to all Members pursuant to section 5016 of the Corporations Code, and of the availability of any accounting of those expenses. Unless the Project Documents impose more stringent standards, the Association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by Members of the Association at the Association's office.

12.4 Reserve Account Withdrawal Restrictions: At least two (2) signatures shall be required for the withdrawal of monies from the Association's reserve accounts, signatures shall be those of members of the Board or one (1) member of the Board and one (1) officer who is not a member of the Board.

12.5 Review of Financial Records: The Board shall review on at least a quarterly basis a current reconciliation of the Association's operating and reserve accounts, the current year's actual reserve revenues and expenses compared to the current year's budget, and an income and expense statement for the Association's operating and reserve accounts. In addition, the Board shall review the latest account statements prepared by the financial institutions where the Association has its operating and reserve accounts. For purposes herein, "reserve accounts" shall mean monies that the Association's Board has identified for use to defray the future repair or replacement of, or additions to, those Major Components which the Association is obligated to maintain.

12.6 Future Changes in Financial Records and Reserve Account Requirements: The provisions of subsections 12.1 - 12.5 incorporate the statutory requirements of California Civil Code §1365.5. If said Civil Code Section 1365.5 is amended in any manner, said sections shall be amended in the same manner without the necessity of amending these Bylaws.

ARTICLE XIII MISCELLANEOUS

13.1 Amendments. Prior to close of escrow on the sale of the first Unit, Declarant may amend these Bylaws (provided any amendment constituting a material change shall require the approval of the Department of Real Estate). After sale of the first Unit, these Bylaws may be amended, only by the affirmative vote (in person or by proxy) or written consent of Members representing a majority of a quorum of the Association which majority includes a majority of the votes or written consents of Members other than Declarant. Where the two (2) class voting structure is still in effect, the vote shall be of a majority of a quorum of each class of Members. However, the percentage of voting power necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

13.2 Conflicts. In the case of any conflict between the Articles and the Bylaws, the Articles shall control; and in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

13.3 Fiscal Year. Unless the Board directs otherwise, the fiscal year of the Association shall begin on the first day of January and end on the thirty-first (31st) day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

13.4 Determination to Initiate Construction Claims Under Title 7 (Part 2, Division 2) of the Civil Code: The Declarant shall have no control over the Association's ability to decide whether or not to initiate a construction defect claim under Title 7 (Part 2, Division 2) of the California Civil Code. During the period from the incorporation of the Association and the first election of the Board of Directors, any decision whether or not to initiate a construction defect claim under Title 7 shall be made by vote of a majority of the Members, excluding the vote of Declarant, which vote may be either at a duly held meeting of the members, or may be by written ballot. During the period between the first closing of an escrow within the Project, and the election of a Board, at least two members of which were elected solely by votes of Members other than Declarant, the Board shall take any action concerning construction defect claims under Title 7 (including, if necessary, the allocation of Association funds) as requested by a majority of the Members other than Declarant. Upon the election of a Board of Directors, which results in there being at least two (2) Directors elected solely by votes of Members other than Declarant (Non-

Declarant Directors), any decisions made thereafter by the Association about whether or not to initiate a construction defect claim under Title 7 shall be made by the two (2) Non-Declarant Directors; provided, further that any determination by such Non-Declarant Directors to initiate a construction defect claim under Title 7 must be ratified by a vote of a majority of the Members, excluding the vote of Declarant. The provisions of this section 13.4 may be amended only with the vote or written consent of a majority of the Members, excluding the vote of Declarant.

CERTIFICATE

I, the undersigned, the duly elected and acting Secretary of STERLING PLACE HOMEOWNERS ASSOCIATION, a California nonprofit mutual benefit corporation, do hereby certify that the foregoing Bylaws were adopted as the Bylaws of the Association on May 5, 2005, and that the same do now constitute the Bylaws of the Association.

This Certificate is executed under penalty of perjury on May 5, 2005, in
Los Angeles, California.

Dated: 5/5/05

Johnnie Nicoli
Secretary