

**BYLAWS OF
SHADY CANYON COMMUNITY ASSOCIATION**

ARTICLE I

NAME AND LOCATION

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

ARTICLE II

DEFINITIONS

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

ARTICLE III

MEMBERSHIP AND VOTING RIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

MEETINGS OF MEMBERS

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

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

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