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DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS
RANCHO SANTA MARGARITA
BRISA DEL LAGO II

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DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS

RANCHO SANTA MARGARITA

BRISA DEL LAGO II

ORANGE COUNTY, CALIFORNIA

THIS DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS (the "Declaration") is made this 2nd day of June, 1988 by BAYWOOD HOMES-SANTA MARGARITA, a California General Partnership (the "Declarant").

R E C I T A L S

A. Declarant is the fee owner of certain real property (the "Initial Covered Property") located in Orange County, California, described as:

Lots 1 to 5, inclusive, Lots 17 to 22 inclusive, Lot 31 and Lot E of Tract Map No. 13060 as per map filed in Book 589, Pages 14 to 24, inclusive, of Miscellaneous Maps, records of said County.

Said Tract shall hereinafter be referred to as "Tract Map No. 13060."

B. It is the desire and intention of the Declarant to create a multiphased condominium planned development in accordance with Section 1351(f) of the California Civil Code and to establish covenants, conditions and restrictions which will constitute a general scheme for the management, use, occupancy and enjoyment of the Covered Property, all for the purpose of enhancing and protecting the value, desirability and attractiveness of the Covered Property and enhancing the quality of life within the Covered Property.

This Development is presently designed as a five-phase condominium planned development containing a total of one hundred fifty (150) units located within condominium buildings of ranch style architecture, constructed in wood and stucco with concrete tile roofs with Residential Elements ranging in size from 841 to 1,188 square feet. The first phase shall include Maintenance Corporation Property containing recreational facilities consisting of a pool, spa and tot lot to be owned by the Maintenance Corporation for the use and enjoyment of all Owners. Although Declarant currently intends to sequentially develop the Annexation Property in four (4) additional Phases containing 35, 30, 20 and 20 units, respectively, it has no obligation to do so. Declarant may elect to develop all or any part of the Annexation

Property in increments of any size and in any order, as to develop more than one such increment at any given time. The development of the project will be consistent with the overall development plan submitted to the Veterans Administration and Federal Housing Administration.

C. All persons who purchase Condominiums within the Covered Property shall be Owners and Members as defined herein.

NOW, THEREFORE, Declarant hereby covenants, agrees and declares that all of the Covered Property shall be held and conveyed subject to the following covenants, conditions, restrictions and easements which are hereby declared to be for the benefit of said interests and shall be equitable servitudes in accordance with California Civil Code Section 1354 and shall be binding upon all parties having or acquiring any right or title in said interests or any part thereof, and shall inure to the benefit of each owner thereof and are imposed upon said interests and every part thereof as a servitude in favor of each and every of said interests as the dominant tenement or tenements.

ARTICLE IDEFINITIONS

Unless the context clearly indicates otherwise, the following terms used in this Declaration are defined as follows:

Section 1.01 - Allowable Charges. "Allowable Charges" shall mean the costs, late charges and interest in the amounts permitted by Section 1366(c) of the California Civil Code which may be recovered by the Maintenance Corporation when any Assessment becomes delinquent which, as of the date hereof, permits (i) reasonable costs incurred in collecting delinquent Assessments including reasonable attorneys' fees, (ii) a late charge not exceeding ten percent (10%) of the delinquent Assessments or Ten Dollars (\$10.00), whichever is greater, and (iii) interest on all sums imposed in accordance with this Section, including the delinquent Assessment, reasonable costs of collection and late charges, at an annual percentage rate not to exceed twelve percent (12%) interest, commencing thirty (30) days after the Assessment becomes due.

Section 1.02 - Annexation Property. "Annexation Property" shall mean and refer to that real property in the County described as:

Lots 6 to 16, inclusive, Lots 23 to 30, inclusive, Lot 32, Lot C, Lot D and Lots F to I, inclusive, of Tract Map No. 13060.

It is contemplated that the total number of Condominiums which may be annexed as part of the Annexation Property shall not exceed 105 Condominiums.

Section 1.03 - Annexed Property. "Annexed Property" shall mean and refer to any property that is described in a Supplementary Declaration that has been recorded in the Official Records and has become a part of the Covered Property.

Section 1.04 - Architectural Committee. "Architectural Committee" shall mean and refer to the committee or committees provided for in the Article hereof entitled "Architectural Control."

Section 1.05 - Articles and Bylaws. "Articles" and "Bylaws" shall mean and refer to the Articles of Incorporation and Bylaws of the Maintenance Corporation as the same may from time to time be duly amended.

Section 1.06 - Assessments. "Assessments" shall mean each of the charges levied by the Board pursuant to the provisions of the Maintenance Corporation Management Documents for the purposes indicated below:

(a) Cable Television Service Assessment for cable television services which may be levied against an Owner who has subscribed for such services;

(b) Capital Improvement Assessment levied against each Owner in any calendar year applicable to that year only for the purpose of defraying, in whole or in part, the cost of any installation, construction or replacement of a described capital Improvement upon the Common Area to the extent the same is not covered by Reconstruction Assessments, including the necessary fixtures and personal property related thereto;

(c) Penalty Assessment levied against an Owner as a monetary penalty as a disciplinary measure for failure of such Owner to comply with the provisions of the Maintenance Corporation Management Documents or as a means of reimbursing the Maintenance Corporation for costs incurred by the Maintenance Corporation in the repair of damage to the Common Area for which the Owner was allegedly responsible or bringing such Owner and his Condominium into compliance with the provisions of the Maintenance Corporation Management Documents;

(d) Reconstruction Assessment levied against each Insured Owner to cover the cost to the Maintenance Corporation for the repair, replacement or reconstruction of any portion or portions of the Insured Improvements pursuant to the provisions of the Article entitled "Destruction of Improvements" of this Declaration;

(e) Regular Assessment levied against each Owner for such Owner's proportionate share of the estimated Common Expenses for the forthcoming fiscal year; and

(f) Special Assessment levied against all Owners to cover the cost of any action or undertaking on behalf of the Maintenance Corporation which is not specifically covered under any other Assessment. In the event the Maintenance Corporation undertakes to provide materials or services which benefit a particular Owner, such Owner in accepting such materials and services agrees that the cost thereof shall also be a Special Assessment.

Section 1.07 - Board. "Board" shall mean the Board of Directors of the Maintenance Corporation.

Section 1.08 - Budget. "Budget" shall mean an itemized written estimate of the income and Common Expenses of the Maintenance Corporation prepared from time to time pursuant to the provisions of the Bylaws.

Section 1.09 - California Statutes. "California statutes" (Sections of the California Civil Code, Business and Professions Code, Code of Civil Procedure or Corporations Code) when referenced in any of the Maintenance Corporation Management Documents shall mean each such statute, or any successor statute thereof.

Section 1.10 - Common Area. "Common Area" shall mean the Covered Property excepting the Units.

Section 1.11 - Common Expenses. "Common Expenses" shall mean and refer to the actual and estimated costs or amounts paid for the benefit of the Maintenance Corporation and all Members for:

(a) maintenance, management, operation, repair and replacement of the Common Area and all other areas which are maintained by the Maintenance Corporation pursuant to the provisions of this Declaration;

(b) unpaid Assessments;

(c) management and administration of the Maintenance Corporation, including, but not limited to, compensation paid by the Maintenance Corporation to managers, accountants, attorneys and employees;

(d) to the extent not metered or billed to Owners, utilities, trash pickup and disposal, gardening and other services which generally benefit and enhance the value and desirability of the Covered Property;

(e) premiums on all insurance and fidelity bonds maintained by the Maintenance Corporation pursuant to the Article entitled "Insurance" of this Declaration (except for fidelity bonds obtained by a management agent for its officers, employees and agents);

(f) adequate reserves to cover the deductible amounts of any insurance policies maintained by the Maintenance Corporation and for the periodic maintenance, repair and replacement of Improvements maintained by the Maintenance Corporation pursuant to this Declaration, including reserves for replacements for structural elements and mechanical equipment of recreational or other facilities maintained by the Maintenance Corporation;

(g) taxes paid by the Maintenance Corporation;

(h) discharge of any lien or encumbrance levied against the Common Area or portions thereof;

(i) expenses incurred by committees established by the Board;

(j) security systems or services installed by or contracted for by the Maintenance Corporation; and

(k) other expenses incurred by the Maintenance Corporation for any reason whatsoever in connection with the Common Area or the costs of any other item or items designated by the Maintenance Corporation Management Documents, or in furtherance of the purposes of the Maintenance Corporation or in the discharge of any duties or powers of the Maintenance Corporation.

Section 1.12 - Common Facilities. "Common Facilities" shall mean and refer to the Improvements upon Common Area that are not Structural Common Area or Residence Improvements.

Section 1.13 - Condominium. "Condominium" shall mean an estate in real property as defined in Section 1351(f) of the California Civil Code and consists of a fractional undivided interest in common in certain Condominium Common Area, together with a separate interest in space called a Unit the boundaries of which are described on a Condominium Plan in sufficient detail to locate all boundaries thereof and all right, title and interest appurtenant thereto. The fractional undivided interest of each Owner as tenant in common in the Condominium Common Area of Lots 1 to 5, inclusive, and Lots 17 to 22, inclusive, of Tract Map No. 13060 of the Initial Covered Property shall be a one forty-fifth (1/45th) interest, such fractional undivided interest shall be appurtenant to each Unit within such property, shall be described in the instrument conveying a Condominium to the Owners of such Units and shall not be changed except as provided in the Section entitled "Material Changes" of the Article entitled "Mortgagee Protection", the Section entitled "Compliance with Condominium Plan" of the Article entitled "Destruction of Improvements," and the Section entitled "Change of Condominium Interest" of the Article entitled "Eminent Domain" all of the Declaration.

Owners of Condominiums in any Annexed Property described in a Supplementary Declaration shall receive fractional undivided interests in the Condominium Common Area of such Annexed Property. The Supplementary Declarations shall set forth each Owner's undivided interest in common with other Owners in the Condominium Common Area described in such Supplementary Declaration.

Section 1.14 - Condominium Building. "Condominium Building" shall mean a separate building containing one or more Unit Elements.

Section 1.15 - Condominium Common Area. "Condominium Common Area" shall mean that portion of the Common Area that is not Association Property and, without limiting the generality of the foregoing, specifically including all structural projections

within a Unit which are required for the support of a Condominium Building, gas, water, waste pipes, all sewers, all ducts, chutes, conduits, wires and other utility installations of the structures wherever located (except the outlets thereof when located within the Units), the land upon which the structures are located, the air space above these structures, all bearing walls, columns, floors, the roof, the slab foundation, common stairways, window glass and the like. Condominium Common Area shall specifically exclude all air conditioning equipment notwithstanding that the foregoing are located in the Condominium Common Area.

Section 1.16 - Condominium Plan. "Condominium Plan" shall mean the certain condominium plan or plans and any amendments thereto recorded in the Official Records as defined in Section 1351(e) of the California Civil Code. In interpreting deeds, leases, declarations and plans, the existing physical boundaries of a Unit constructed in substantial accordance with the Condominium Plan shall be conclusively presumed to be its boundaries rather than the description expressed in the deed, lease, declaration or plan, regardless of settling or lateral movement of the building and regardless of minor variances between boundaries as shown on the plan or in the deed, lease, or declaration and those of the building as constructed.

Section 1.17 - Condominium Project. "Condominium Project" shall mean as defined in Section 1351(f) of the California Civil Code to be a real property development consisting of Condominiums. Each portion of a Phase that is divided into Condominiums which together contain all of the undivided interests in common in the Condominium Common Area of such Phase is a Condominium Project.

Section 1.18 - County. "County" shall mean and refer to the County of Orange, State of California.

Section 1.19 - Covered Property. "Covered Property" shall mean and refer to the Initial Covered Property and, subsequent to the annexation thereof, any Annexed Property. The Covered Property is a common interest development as defined in Section 1351(c) of the California Civil Code which is being developed as a condominium planned development.

Section 1.20 - Declarant. "Declarant" shall mean and refer to:

(a) BAYWOOD HOMES-SANTA MARGARITA, a California General Partnership, its successors and assigns, by merger, consolidation or by purchase of all or substantially all of its assets; and

(b) any person or entity, his or its successors and assigns to which the foregoing Declarant has assigned any or all of its rights and obligations by an express assignment which may be incorporated into a recorded instrument including but not limited to a deed, lease, option agreement, land sale contract or

assignment as the case may be, transferring such interest if such assignee agrees in writing with Declarant to accept such assignment.

Section 1.21 - Development. "Development" shall mean and refer to the Initial Covered Property and the Annexation Property.

Section 1.22 - DRE. "DRE" shall mean and refer to the Department of Real Estate of the State of California.

Section 1.23 - Exclusive Use Common Area. "Exclusive Use Common Area" shall mean those portions of the Common Area the exclusive use of which, subject to the rights of the Maintenance Corporation and Declarant, has been granted to the Owner or Owners of particular Units and their families and guests. Any shutters, awnings, window boxes, doorsteps, stoops, porches, balconies, patios, yard areas, exterior doors, door frames, and hardware incident thereto, screens and windows or other fixtures designed to serve a single Unit but located outside the boundaries of the Unit will be Exclusive Use Common Area allocated exclusively for the use and enjoyment of the Owner of the Unit served. Internal and external telephone wiring designed to serve a single Unit, but located outside the boundaries of such Unit, will be Exclusive Use Common Area allocated exclusively for the use and enjoyment of the Owner of the Unit served. Particular Exclusive Use Common Area and the Units to which said Exclusive Use Common Areas are appurtenant are identified on the Condominium Plan as follows:

(a) "Air Conditioning Area" shall be identified by letters "Ex", the Unit number and the letters "AC."

(b) "Assigned Parking Space" shall be identified by the letters "Ex", the Unit number and the letters "PS."

(c) "Carport" shall be identified by the letters "Ex", the Unit number and the letters "CP."

(d) "Entry Landing" shall be identified by the letters "Ex", the Unit number and the letter "E."

(e) "Garage" shall be identified by the letters "Ex", the Unit number and the letter "G."

(f) "Stairway" shall be identified by the letters "Ex", the Unit number and the letter "S."

(g) Areas shared by more than one Unit, such as stairways and landings, shall be identified by the letters "Ex" and appropriate Unit numbers such as "Ex (10, 11, 13)" and the appropriate letter designation.

Exclusive Use Common Area can also be created pursuant to the Section entitled "Additional Exclusive Use Common Areas" of the Article entitled "Easements and Rights" of this Declaration.

Section 1.24 - Exhibit. "Exhibit" shall mean and refer to any document so designated herein and attached hereto or so designated in a Supplementary Declaration and attached thereto and each of such Exhibits is by this reference incorporated in this Declaration or such Supplementary Declaration.

Section 1.25 - Federal Agencies. "Federal Agencies" shall mean and refer to collectively one or more of the following agencies and the following letter designation for such agencies shall mean and refer to respectively the agency specified within the parentheses following such letter designation: FHA (Federal Housing Administration), FHLMC (Federal Home Loan Mortgage Corporation), FNMA (Federal National Mortgage Association), GNMA (Government National Mortgage Association), VA (Veterans Administration).

Section 1.26 - Final Subdivision Public Report. "Final Subdivision Public Report" shall refer to that report issued by the DRE pursuant to Section 11018.2 of the California Business and Professions Code.

Section 1.27 - Improvement. "Improvement" shall mean all:

(a) structures and appurtenances thereto of every type and kind, including but not limited to, buildings, out buildings, walkways, sprinkler and sewer pipes or lines, garages, carports, swimming pools and other recreational facilities, roads, driveways, parking areas, fences, screens, screening walls, retaining walls, awnings, patio and balcony covers, stairs, decks, landscaping, installation or modification of a solar energy system, hedges, slopes, windbreaks, the exterior surfaces of any visible structure, trees and shrubs, poles, signs, solar or wind powered energy systems or equipment, and water softener or heater or air conditioning and heating fixtures and equipment;

(b) the demolition or destruction by voluntary action of any structure or appurtenance thereto of every type and kind;

(c) the grading, excavation, filling, or similar disturbance to the surface of the land including, without limitation, change of grade; change of ground level, change of drainage pattern or change of stream bed;

(d) landscaping, planting, clearing, or removing of trees, shrubs, grass, or plants; and

(e) any change or alteration of any Improvement including any change of exterior appearance, color or texture.

Section 1.28 - Insured Owner. "Insured Owner" shall mean and refer to an Owner who owns a Condominium that is covered by the fire and casualty insurance policy maintained by the Maintenance Corporation.

Section 1.29 - Local Government. "Local Government" shall mean and refer to the City, if any, in which the Covered Property is located. If the Covered Property is not located within a City, "Local Government" shall mean and refer to the County.

Section 1.30 - Maintenance Corporation. "Maintenance Corporation" shall mean and refer to Brisa del Lago II, a nonprofit mutual benefit corporation incorporated under the laws of the State of California, its successors and assigns, for the purpose of managing the Covered Property.

Section 1.31 - Maintenance Corporation Management Documents. "Maintenance Corporation Management Documents" shall mean and refer to the Articles, Bylaws, Architectural Standards, Declaration and the Maintenance Corporation Rules and any amendments to any of the foregoing.

Section 1.32 - Maintenance Corporation Property. "Maintenance Corporation Property" shall mean and refer to all real property and the Improvements thereon (other than Condominium Common Area), owned in fee, by easement or leased from time to time by the Maintenance Corporation which shall be available for the common use and enjoyment of the Owners. The Maintenance Corporation Property within the Initial Covered Property is described as Lot E and Lot 31 of Tract Map No. 13060.

Section 1.33 - Maintenance Corporation Rules. "Maintenance Corporation Rules" shall mean rules adopted, amended and repealed from time to time by the Board pursuant to the Article entitled "Discipline of Members" of the Bylaws.

Section 1.34 - Member. "Member" shall mean and refer to every person or entity who is an Owner including Declarant so long as Declarant continues to be an Owner.

Section 1.35 - Mortgage and Mortgagee. "Mortgage" and "Mortgagee" shall mean and refer respectively to any duly recorded mortgage or deed of trust encumbering a Condominium and the holder of the mortgagee's or beneficiary's interest under any such Mortgage. "First Mortgage" and "First Mortgagee" shall mean and refer respectively to a Mortgage which has priority over all other Mortgages encumbering a specific Condominium and the holder of any such First Mortgage.

The following additional terms describe Mortgagees or insurers or guarantors of Mortgages who are entitled to specific rights described in the Maintenance Corporation Management Documents:

"Eligible Mortgage Holder" shall mean a First Mortgagee who is entitled to receive notification from the Maintenance Corporation and has the right to vote or approve any proposed amendment or action that requires the consent of a percentage of Eligible Mortgage Holders. Such Eligible Mortgage Holder shall be entitled to receive such notification and to vote on such matters only if such Eligible Mortgage Holder delivered to the Board a prior written request therefor. Wherever the approval of all or a specified percentage of Eligible Mortgage Holders is required it shall be deemed to mean the vote or approval of all or a specified percentage only of those First Mortgagees who have become Eligible Mortgage Holders by reason of having provided such notification to the Board. Wherever the vote or written approval of Eligible Mortgage Holders is required, it shall be deemed to mean such vote or approval of the percentage specified based on one (1) vote for each First Mortgage held.

"Requesting Mortgagee, Insurer or Guarantor" shall mean the Mortgagee, or insurer or guarantor of a Mortgage entitled to receive timely written notification from the Maintenance Corporation of certain matters as provided elsewhere in the Maintenance Corporation Management Documents. To be entitled to receive such notification, the Mortgagee, insurer or guarantor must deliver to the Maintenance Corporation a written request therefor stating the name and address of such Mortgagee, or insurer or guarantor and the address or other identification of the Condominium encumbered by the Mortgage held, insured or guaranteed by such Mortgagee, or insurer or guarantor.

Section 1.36 - Official Records. "Official Records" shall mean the Official Records in the Office of the County Recorder of the County.

Section 1.37 - Owner. "Owner" shall mean and refer to one or more persons or entities who are alone or collectively the record owner of a fee simple title to a Condominium, including Declarant, excluding those having any such interest merely as security for the performance of an obligation. If a Condominium has been sold under a land sale contract in which the State of California is the vendor, then the vendee shall be deemed to be the Owner of such Condominium. If a Condominium is leased by Declarant for a term in excess of ten (10) years and the lease or memorandum thereof is recorded, the lessee or transferee of the leasehold interest and not the Declarant shall be deemed to be the Owner. If fee title to a Condominium is owned other than by Declarant, the Owner of the fee title and not the lessee of such Condominium shall be deemed the Owner regardless of the term of the lease.

Section 1.38 - Phase. "Phase" shall mean and refer to each increment of the Covered Property on which the DRE has issued a Final Subdivision Public Report. "First Phase" shall mean the first of any such Phases to have had a conveyance of a Condominium which requires the delivery of a Final Subdivision Public Report.

Section 1.39 - Residence. "Residence" shall mean and refer to a Unit together with any Exclusive Use Common Area appurtenant thereto.

Section 1.40 - Residence Improvements. "Residence Improvements" shall mean and refer to the fixtures and equipment within a Residence and shall also include personal property within the individual Residences if such personal property is encumbered by a First Mortgage.

Section 1.41 - SAMLARC. "SAMLARC" shall mean and refer to Rancho Santa Margarita Landscape and Recreation Corporation, a nonprofit mutual benefit corporation.

Section 1.42 - SAMLARC Declaration. "SAMLARC Declaration" shall mean and refer to that certain Amended and Restated Declaration of Covenants, Conditions and Restrictions recorded on April 24, 1986 as Instrument No. 86-162928 of Official Records of said County, and any amendments thereto.

Section 1.43 - Structural Common Area. "Structural Common Area" shall mean the Condominium Buildings and any Exclusive Use Common Area which, in the original construction of the Condominium Building, or in any reconstruction thereof, was attached or affixed thereto, such as and without limitation, any shutters, awnings, window boxes, porches, balconies, exterior doors, door frames, and hardware incident thereto, screens and windows, and shall also include any walls or fences forming the boundaries of a Residence or any Unit Elements thereof.

Section 1.44 - Subterranean Unit Element. "Subterranean Unit Element" shall mean any Unit Element shown on the Condominium Plan to have a lower horizontal boundary that is below the surface of the land.

Section 1.45 - Supplementary Declaration. "Supplementary Declaration" shall mean a writing annexing additional property extending the plan of this Declaration to such additional property.

Section 1.46 - Trustee. "Trustee" shall mean and refer to the insurance trustee appointed by the Board and shall be a commercial bank, or branch thereof, or a trust company in the County, which has agreed in writing to accept such trust;

provided, however, if the Board is unable to find such an institution to act as Trustee for reasonable compensation after a diligent search, the Board may designate itself to act as the Trustee.

Section 1.47 - Unit. "Unit" shall mean the separate interest in space as defined in Section 1351(f) of the California Civil Code comprised of the elements of a Condominium not owned in common with the Owners of other Condominiums the boundaries of which are identified on the Condominium Plan describing such Unit and shall consist of a Residential Element together with one or more other Unit Elements set forth in this Article. Each Unit shall be identified on the Condominium Plan with a separate number. In addition, all air conditioning equipment which service a particular Unit shall be deemed a part of such Unit whether or not shown on the Condominium Plan.

Section 1.48 - Unit Elements. "Unit Elements" shall mean the following elements of a Unit:

(a) "Balcony" shall mean that portion of a Unit designed for use as a balcony and shall be identified on the Condominium Plan by a Unit number and the letter "B."

(b) "Deck" shall mean that portion of a Unit designed for use as a deck and shall be identified on the Condominium Plan by a Unit number and the letter "D."

(c) "Patio" shall mean that portion of a Unit designed for use as a patio and shall be identified on the Condominium Plan by a Unit number and the letter "P."

The Patio shall consist of the contiguous surfaces of any Common Area walls or fences, the surfaces of the walls of contiguous Condominium Buildings, with the upper and lower horizontal boundaries being planes above and below the surface of the land as shown on the Condominium Plan, and the space and the land encompassed by all of the foregoing.

(d) "Residential Element" shall mean that portion of a Unit designed for use as a residence, and shall be identified on the Condominium Plan by a Unit number only.

Each Unit Element shall consist of the interior undecorated surfaces of the perimeter walls, floors, ceilings, windows (if any) and doors of each Unit Element and the space encompassed thereby, including the outlets of all utility installations therein and also including the interior surfaces of the firebox of any fireplace extending from the floor to the top of each fireplace, if any, and the space encompassed thereby, which adjoins any Unit Element. In the event that any contiguous Common Area land and Improvements do not completely enclose a

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Unit Element, the remaining boundaries of the airspace contained within said Unit Element shall be as delineated on the Condominium Plan.

ARTICLE IITHE MAINTENANCE CORPORATION

Section 2.01 - General Duties and Powers. Subject to the limitations and restrictions enumerated in the Maintenance Corporation Management Documents, including without limitation, the Article entitled "Mortgagee Protection" of the Declaration and the Article entitled "Powers, Duties and Limitations" of the Bylaws, the Maintenance Corporation, through the Board, shall have the duty and obligation to manage and maintain the Covered Property pursuant to the provisions of the Maintenance Corporation Management Documents, and in the performance of such duties and obligations shall have all of the powers of a nonprofit mutual benefit corporation permitted by California statute as set forth in Corporations Code Section 7140, Code of Civil Procedure Section 374 and Civil Code Section 1363. Such powers, duties and obligations are more particularly described elsewhere in the Maintenance Corporation Management Documents but include, without limitation, the duty and obligation to manage and maintain real and personal property in which the Maintenance Corporation holds an interest and to act as a managing agent for all of the Covered Property, the power to borrow money and mortgage Maintenance Corporation Property, dedicate or transfer all or any portion of the Maintenance Corporation Property, establish special tax assessment districts, grant permits, licenses and easements on, over and under the Common Area, sell real or personal property belonging to the Maintenance Corporation and enter upon any Residence as necessary in the event of any emergency involving illness, maintenance and repairs, or as may otherwise be necessary in the performance of such powers, duties and obligations. The foregoing power of the Maintenance Corporation shall include the right to join with the Declarant in the execution of any lot line adjustment and to accept title to additional property or to quitclaim all right, title and interest in and to any Maintenance Corporation Property as necessary to transfer title in accordance with any lot line adjustment provided that such lot line adjustment and the resulting conveyance are made (i) for the purpose of eliminating encroachments due to engineering errors or errors in construction of any Improvements upon any of the affected property, (ii) to permit changes in the development plan in circumstances where such changes are the result of topography, obstruction, hardship, aesthetic or other environmental conditions, (iii) are the requirement of a regulatory agency, (iv) do not have a significant negative impact upon the Maintenance Corporation or the Owners, or (v) to transfer the burden of management and maintenance of any Maintenance Corporation Property which in the reasonable judgment of the Board, is generally inaccessible or is not likely to be of any particular use or benefit to the Owners.

Section 2.02 - Power of Attorney. In addition to any other rights, duties, obligations and powers granted to the Maintenance Corporation herein, and not in limitation of any such rights, duties, obligations and powers, each Owner appoints the Maintenance Corporation as attorney-in-fact for the purpose of handling any losses or proceeds from condemnation, destruction or liquidation of all or any part of the Covered Property to the extent such functions are the obligation of the Maintenance Corporation as such obligations are more particularly described in the Maintenance Corporation Management Documents. All such proceeds shall be retained in the general funds of the Maintenance Corporation except as specifically provided in the Articles entitled "Destruction of Improvements," "Eminent Domain" and "Limitations Upon the Right to Partition and Severance" of this Declaration.

When a partition of the Owners' interest in said Covered Property may be had pursuant to Section 12.01 of this Declaration, the power of attorney herein granted may be exercised upon the vote or written consent of Owners holding in the aggregate at least two-thirds (2/3) of the interest in the Condominium Common Area by any two (2) members of the Board who are hereby authorized to record a certificate of exercise in the Official Records which certificate shall be conclusive evidence thereof in favor of any person relying thereon in good faith; provided, however, that such power of attorney shall not apply to the Administrator of Veterans Affairs, an Officer of the United States of America.

Section 2.03 - Membership. Membership of Owners shall be appurtenant to and may not be separated from the interest of such Owner in any Condominium. A Member may own more than one membership in the Maintenance Corporation by complying with the qualifications of membership as to more than one (1) Condominium.

Section 2.04 - Transfer. The membership held by any Owner shall not be transferred, pledged or alienated in any way, except that such membership shall automatically be transferred to the transferee of the interest of an Owner required for membership. Any attempt to make a prohibited transfer is void and will not be reflected upon the books and records of the Maintenance Corporation. The Maintenance Corporation shall have the right to record the transfer upon the books of the Maintenance Corporation without any further action or consent by the transferring Owner.

Section 2.05 - Delegation of Membership Rights. A Member who has leased or sold his Condominium to a contract purchaser under an agreement to purchase shall be entitled to delegate to such lessee or contract purchaser, as applicable, his membership rights in the Maintenance Corporation. Such delegation shall be in writing and must be delivered to the Board before such lessee or contract purchaser may vote. However, the lessor or contract

seller shall remain liable for all charges and Assessments attributable to his Condominium as long as such lessor or contract seller continues to be an Owner.

Section 2.06 - Classes of Membership. The Maintenance Corporation shall have two (2) classes of voting membership.

Class A. Class A Members shall be all Owners with the exception of the Declarant until the Class B membership has been converted to Class A membership, and after such conversion all Owners shall be Class A Members.

Class B. The Class B Member shall be Declarant. The Class B membership shall forever cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

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

(b) The fourth anniversary of the original issuance of the Final Subdivision Public Report for the First Phase of the Development.

Section 2.07 - Voting Power. Class A Members shall be entitled to one (1) vote for each Condominium in which they hold the interest required for membership and the Class B Member shall be entitled to three (3) votes for each Condominium in which it holds the interest required for membership. When more than one person owns a portion of the interest in a Condominium required for membership, each such person shall be a Member and the vote for such Condominium shall be exercised as they among themselves determine, but in no event shall the total number of votes for each Condominium exceed the total number permitted for such Condominium as provided in this Section. The Maintenance Corporation may, but shall not be obliged to, refuse to recognize the vote or written assent of any such co-Owner, except the vote or written assent of the co-Owner designated in a writing executed by all of such co-Owners and delivered to the Maintenance Corporation.

Section 2.08 - Voting Rights. All voting rights shall be subject to the restrictions and limitations provided in the Maintenance Corporation Management Documents. A Member's right to vote shall vest immediately upon the date Regular Assessments are levied against the Condominium of such Member. Except as provided in the Article entitled "Enforcement of Bonded Obligations" of the Declaration, wherever a provision of the Maintenance Corporation Management Documents requires the approval of Members other than Declarant, it shall be deemed to mean:

(a) as long as there is a Class B membership, the vote of the prescribed percentage of the total voting power of each class of membership; and

(b) after the Class B membership has been converted to Class A membership, the vote of the prescribed percentage of the total voting power of the Maintenance Corporation as well as the vote of a prescribed percentage of the total voting power of Members other than Declarant.

Section 2.09 - Approval of All Members. Unless elsewhere otherwise specifically provided in this Declaration, any provision of this Declaration which requires the vote or written assent of either the voting power of the Maintenance Corporation or of Members other than Declarant shall be deemed satisfied by the following:

(a) The vote in person or by proxy of the specified percentage of all of the votes which are entitled to be cast. Said vote shall be at a meeting duly called and noticed pursuant to the provisions of the Bylaws dealing with annual or special meetings of the Members;

(b) Written consents signed by the specified percentage of all of the votes which are entitled to be cast. Said vote by written consent shall be solicited pursuant to the procedures provided in the Bylaws.

Nothing in this Section or in any other provision of any of the Maintenance Corporation Management Documents shall preclude Members from assenting to the amendment of any of the Maintenance Corporation Management Documents by joining in the execution of, or attaching their written consent to, such amendment.

Section 2.10 - Certificate Evidencing Approvals. The certificate of any officer or officers authorized by resolution of the Board or of the president and secretary certifying that the required voting power of the Maintenance Corporation has approved the execution, delivery and/or recordation of an amendment to any of the Maintenance Corporation Management Documents, any Supplementary Declaration or any other document requiring the approval of the voting power of the Maintenance Corporation shall be deemed conclusive proof thereof.

ARTICLE IIIASSESSMENTS

Section 3.01 - Agreement to Pay. Subject to limitations contained in the Maintenance Corporation Management Documents, the Maintenance Corporation shall fix, establish and collect from time to time Assessments sufficient to perform its obligations under the Maintenance Corporation Management Documents. Each Owner, including the Declarant to the extent Declarant is an Owner as defined herein, is deemed to covenant and agree to pay such Assessments to the Maintenance Corporation.

Section 3.02 - Collection and Disbursement. All funds of the Maintenance Corporation may be commingled so that the Maintenance Corporation may qualify for higher yielding accounts at banking or savings and loan institutions as long as the accounting records of the Maintenance Corporation reflect deposits and disbursements in a manner that will insure that the funds collected as Capital Improvement Assessments, Reconstruction Assessments, Regular Assessments and Cable Television Service Assessments will be used only for the purposes for which such funds were collected.

Section 3.03 - Maximum Assessments.

(a) Regular Assessment. The Board may not, without the vote or written consent of Members constituting a quorum, casting a majority of the votes at a meeting or election of the Maintenance Corporation, impose a Regular Assessment per Condominium which is more than twenty percent (20%) greater than the Regular Assessment for the immediately preceding fiscal year.

(b) Assessment for Other Acts or Undertakings. In any fiscal year, the Board may not, without the vote or written assent of Members constituting a quorum, casting a majority of the votes at a meeting or election of the Maintenance Corporation, levy an Assessment to defray the costs of any action or undertaking on behalf of the Maintenance Corporation which in the aggregate exceed five percent (5%) of the Common Expenses of the Maintenance Corporation for that fiscal year.

(c) Quorum and Meeting. For the purposes of this Section, a quorum means more than fifty percent (50%) of the voting power of the Maintenance Corporation. Any meeting or election of the Maintenance Corporation for the purposes of complying with this Section shall be conducted in accordance with Chapter 5 (commencing with Section 7510) of Part 3, Division 2 of Title 1 of the California Corporations Code and Section 7613 of the California Corporations Code.

(d) Emergency Situations. Notwithstanding any other provision contained in this Section, the Board may increase Assessments necessary for emergency situations. For purposes of this Section, an emergency situation is any one of the following:

(i) an extraordinary expense required by an order of a court;

(ii) an extraordinary expense necessary to repair or maintain the Covered Property or any part of it for which the Maintenance Corporation is responsible where a threat to personal safety on the property is discovered;

(iii) an extraordinary expense necessary to repair or maintain the Covered Property or any part of it for which the Maintenance Corporation is responsible that could not have been reasonably foreseen by the Board in preparing and distributing the Budget. However, prior to the imposition or collection of an Assessment under this subdivision, the Board shall pass a resolution containing written findings as to the necessity of the extraordinary expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process, and the resolution shall be distributed to the Members with the notice of Assessment.

In the event the Board shall determine that the estimate of total charges for the current year is, or will become, inadequate to meet all Common Expenses for any reason, it shall then immediately determine the approximate amount of such inadequacy, issue a supplemental estimate of the Common Expenses and to the extent permitted in this Section determine the revised amount of the Regular Assessment and the installments thereof, if applicable, allocable to each Condominium, and the date or dates when due. In the event the amount budgeted to meet Common Expenses for the then current year proves to be excessive in light of the actual Common Expenses, the Board in its discretion may either reduce the amount of the Regular Assessment or may abate collection of Regular Assessments as it deems appropriate except that as long as the Declarant is offering Condominiums for sale pursuant to a Final Subdivision Public Report, the Regular Assessment may not be decreased by ten percent (10%) or more without the express written consent of the Declarant and the DRE.

Section 3.04 - Assessment Allocation.

(a) Equal Assessments. Assessments which are to be fixed at an equal amount for each Condominium shall be (i) Regular Assessments, (ii) Capital Improvement Assessments and Reconstruction Assessments levied for the repair, replacement or reconstruction of Common Area Improvements other than Structural Common Area, and (iii) Special Assessments levied against all

Condominiums for an act or undertaking of the Maintenance Corporation not covered under any other Assessment.

(b) Square Footage. Reconstruction Assessments and Capital Improvement Assessments levied for the repair, replacement or reconstruction of Structural Common Area shall be determined by multiplying the total amount required to be collected by a fraction, the denominator of which is the total square feet of floor area for all Residential Elements of Units which are to be assessed, and the numerator of which is the total square feet of floor area of the Residential Element of the appropriate Unit for which such Assessment is being determined as such square footage is shown on the Condominium Plan or Plans describing such Residences. Capital Improvement Assessments pursuant to this paragraph shall be calculated on the basis that such square footage of each such Owner's Residential Element bears to such total square footage of the Residential Elements of the Units of all such Owners. Reconstruction Assessments pursuant to this paragraph shall be calculated on the basis that such square footage of each such Insured Owner's Residential Element bears to such total square footage of the Residential Elements of the Units of all Insured Owners.

(c) Affected Owners. A Reconstruction Assessment levied for the repair, replacement or reconstruction of any Residence Improvements covered by the fire and casualty insurance policy maintained by the Maintenance Corporation shall be levied individually against the Owner of such Residence Improvements in the amount necessary to cover the cost of repair, replacement or reconstruction in excess of insurance proceeds available for such purpose.

(d) Cable Television. In the event the Board elects to contract with a cable television service company to provide service for the benefit of Owners, Cable Television Service Assessments shall be levied against Owners who have subscribed with the Maintenance Corporation for such services.

All Assessments may be collected at intervals selected by the Board except that Regular Assessments which include reserves must be paid in regularly scheduled installments.

Section 3.05 - Not Subject to Lien. Penalty Assessments may not be characterized nor treated as an Assessment which may become a lien against an Owner's Condominium enforceable in accordance with the Section entitled "Foreclosure Sale" of this Article. Nothing in this Declaration, however, shall prevent the Maintenance Corporation from bringing an action at law or in equity against an Owner to collect Penalty Assessments.

Section 3.06 - Certificate of Payment. The Maintenance Corporation shall, upon demand, furnish to any Owner liable for

Assessments a certificate in writing signed by an authorized agent of the Maintenance Corporation or by the president setting forth whether the Assessments on such Owner's Condominium have been paid, and the amount of delinquency, if any. A reasonable charge may be collected by the Board for the issuance of these certificates. Such certificates shall be conclusive evidence of payment of any Assessment therein stated to have been paid.

Section 3.07 - Exempt Property. All properties dedicated to and accepted by, or otherwise owned or acquired by, a public authority shall be exempt from the Assessments created herein.

Section 3.08 - Date of Commencement. The Regular Assessments shall commence with respect to all Condominiums in a Phase on the first day of the month following the first conveyance of a Condominium within such Phase or the first day of the month following the conveyance of the Maintenance Corporation Property, if any, in such Phase to the Maintenance Corporation, whichever shall first occur. The first Regular Assessment shall be adjusted according to the number of months remaining in the fiscal year. Reconstruction Assessments may be levied against any Insured Owner. All other Assessments may be levied against an Owner when Regular Assessments have commenced against such Owner's Condominium.

Section 3.09 - No Offsets. All Assessments shall be payable in the amount specified by the Assessment and no offsets against such amount shall be permitted for any reason.

Section 3.10 - Homestead Waiver. Each Owner, to the extent permitted by law, does hereby waive, to the extent of any liens created pursuant to this Declaration, whether such liens are now in existence or are created at any time in the future, the benefit of any homestead or exemption laws of the State of California now in effect or in effect from time to time hereafter.

Section 3.11 - Taxation of Maintenance Corporation. In the event that any taxes are assessed against the Common Area or the personal property of the Maintenance Corporation, rather than against the individual Condominiums, said taxes shall be added to the annual Regular Assessments, or, if necessary, a Special Assessment may be levied against the Condominiums in an amount equal to said taxes, to be paid in two (2) installments thirty (30) days prior to the due date of each tax installment.

Section 3.12 - Collection of SAMLARC Assessments. The Maintenance Corporation may contract with SAMLARC for the collection of SAMLARC assessments and SAMLARC related services.

Section 3.13 - Delinquency. Any Assessment provided for in this Declaration which is not paid shall be delinquent fifteen (15)

days after such Assessment was due (the "delinquency date") and Allowable Charges may be recovered if an Assessment becomes delinquent. The Maintenance Corporation may at its option, and without waiving the right to judicially foreclose its lien against the Condominium, pursue any available remedies, including, without limitation, bringing an action at law against the Owner personally obligated to pay the same, and/or upon compliance with the notice provisions set forth in the Section entitled "Personal Obligation; Lien" of this Article, to foreclose the lien against the Condominium under the power of sale granted herein. Each Owner vests in the Maintenance Corporation, or its assigns, the right and power to bring all actions at law or any lien foreclosure against such Owner or other Owners for the collection of such delinquent Assessments.

Section 3.14 - Excessive Fees. The Maintenance Corporation shall comply with Sections 1366.1 and 1368(c) of the California Civil Code and until such Sections are amended to provide otherwise, shall not:

(a) impose or collect an Assessment, penalty or fee that exceeds the amount necessary for the purposes for which it is levied; and

(b) impose or collect any Assessment, penalty, or fee in connection with a transfer of title or any other interest except the Maintenance Corporation's actual cost to change its records and that authorized in connection with Section 6.01(o) of the Bylaws to provide copies of Maintenance Corporation Management Documents, copies of financial statements and statements of unpaid Assessments and Allowable Charges.

Section 3.15 - Personal Obligation; Lien. An Assessment and any Allowable Charges shall be a debt of the Owner of the Condominium at the time the Assessment or Allowable Charges are levied. The amount of the Assessment, plus any Allowable Charges, shall be a lien on the Owner's Condominium. The Notice of Delinquent Assessment, recorded in the Official Records shall state: (i) the amount of the Assessment and Allowable Charges; (ii) a description of the Owner's Condominium against which the Assessment and Allowable Charges are levied; (iii) the name of the record Owner of the Condominium against which the lien is imposed, and (iv) in order for the lien to be enforced by nonjudicial foreclosure as hereinafter provided, the name and address of the trustee authorized by the Maintenance Corporation to enforce the lien by sale. The Notice of Delinquent Assessment shall be signed by the officers authorized for such purpose by resolution of the Board or by the president of the Maintenance Corporation. Upon payment of the sums specified in the Notice of Delinquent Assessment, the Maintenance Corporation shall cause to be recorded a further notice stating the satisfaction and release of the lien thereof. A lien created pursuant to this Section

shall be prior to all other liens recorded subsequent to the Notice of Delinquent Assessment, except (i) all taxes, bonds, assessments and other levies which, by law, would be superior thereto, and (ii) the lien or charge of any First Mortgage.

Section 3.16 - Foreclosure Sale. Said lien created pursuant to this Article may be enforced in any manner permitted by law, including sale by the court, sale by the trustee designated in the Notice of Delinquent Assessment, or sale by a trustee substituted pursuant to Section 2934a of the California Civil Code. Any sale by a trustee provided for above is to be conducted in accordance with the provisions of Sections 2924 et seq. and Section 1367 of the California Civil Code as said statutes may from time to time be amended, applicable to the exercise of powers of sale in mortgages and deeds of trust. Upon the affirmative vote of a majority of the voting power of the Maintenance Corporation, the Maintenance Corporation, through its duly authorized agents, shall have the power to bid on the Condominium, using Maintenance Corporation funds, or funds borrowed for such purpose, at the sale, and to acquire and hold, lease, mortgage and convey the same. Nothing in this Section prohibits actions against any Owner to recover sums for which a lien is created pursuant to this Article or prohibits the Maintenance Corporation from taking a deed in lieu of foreclosure.

Section 3.17 - Subordination of Assessment Liens. The lien of the Assessments and Allowable Charges provided for in this Declaration shall be subordinate to the lien of any First Mortgage upon any Condominium. The foreclosure of any lien provided for in this Article for the payment of Assessments and Allowable Charges shall not operate to affect or impair the lien of a First Mortgage and the foreclosure of the lien of a First Mortgage or the sale under a power of sale included in such First Mortgage (such events being hereinafter referred to as "Events of Foreclosure") shall not operate to affect or impair such Assessment lien, except that any persons who obtain an interest through any of the Events of Foreclosure, and the successors in interest, shall take title free of such Assessment lien or any personal obligation for said charges as shall have accrued up to the time of any of the Events of Foreclosure, but subject to the Assessment lien for all said charges that shall accrue subsequent to the Events of Foreclosure. Notwithstanding the foregoing, any such delinquent Assessments that were extinguished pursuant to this paragraph may be reallocated and assessed to all Condominiums as a Common Expense.

A First Mortgagee's rights pursuant to this Section shall not be affected by the failure of such First Mortgagee to deliver a notice to the Board.

The lien of the Assessments and Allowable Charges as aforesaid shall also be subordinate to the interests of the Department of Veterans Affairs of the State of California as the vendor under its Cal-Vet loan contracts to the same extent that the said liens are made subordinate to the liens or charges of First Mortgages as provided above.

Section 3.18 - Capitalization of Maintenance Corporation . Each Owner in the Initial Covered Property shall contribute to the capital of the Maintenance Corporation an amount equal to one-sixth (1/6th) of the amount of the annual Regular Assessment levied against the Condominium of such Owner as of the date of such Owner's acquisition of title. This amount shall be deposited by the buyer into the purchase and sale escrow and at the close of escrow disbursed therefrom to the Maintenance Corporation. Any amounts paid into this fund pursuant to this Section should not be considered as advance payments of Regular Assessments.

ARTICLE IVARCHITECTURAL CONTROL

Section 4.01 - Architectural Committee. The Architectural Committee shall consist of not fewer than three (3) nor more than five (5) persons as fixed from time to time by resolution of the Board. The Declarant shall initially appoint the Architectural Committee. The Declarant shall retain the right to appoint, augment or replace all members of the Architectural Committee until one (1) year after the date of the issuance of a Final Subdivision Public Report covering the Initial Covered Property. The Declarant shall retain the right to appoint, augment or replace a majority of the members of the Architectural Committee until five (5) years after the date of the issuance of said Final Subdivision Public Report, or until ninety percent (90%) of the Condominiums within the Development have been conveyed by the Declarant, whichever shall first occur at which time the right to appoint, augment or replace all members of the Architectural Committee shall automatically be transferred to the Board. As long as Declarant has the right to appoint some but not all of the members of the Architectural Committee, the Board shall have the right but not the obligation to fill the remaining vacancies on the Architectural Committee. Persons appointed by the Board to the Architectural Committee must be Members; however, persons appointed by Declarant to the Architectural Committee need not be Members, in Declarant's sole discretion. The address of the Architectural Committee shall be the address established for giving notice to the Maintenance Corporation. Such address shall be the place for the submittal of plans and specifications and the place where the current Architectural Standards shall be kept.

Section 4.02 - Architectural Standards. The Board may, from time to time, adopt and promulgate Architectural Standards to be administered through the Architectural Committee as it deems appropriate and as are not in conflict with the SAMLARC Declaration or the standards and rules and regulations established pursuant thereto. The Architectural Standards may include among other things those restrictions and limitations upon the Owners set forth below:

(a) Time limitations for the completion of the Improvements for which approval is required pursuant to the Architectural Standards.

(b) Conformity of completed Improvements to plans and specifications approved by the Architectural Committee; provided, however, purchasers and encumbrancers of a Condominium in good faith and for value shall be deemed to be in compliance with approved plans and specifications and in compliance with the Architectural Standards unless notice of noncompletion or

nonconformance specifying the reason for the notice shall be filed of record against such Condominium in the Official Records within one (1) year of the expiration of the time limitation described in subsection (a) above, or unless legal proceedings shall have been instituted to enforce compliance or completion within said one (1) year period. The Owner to whom a notice of noncompletion or noncompliance has been issued shall be bound by such notice regardless of whether such notice has been filed of record in the Official Records. Each Owner hereby is deemed to have consented to and authorized the recordation against his Condominium of such a notice of noncompletion or nonconformance executed by duly authorized officers or by the president and secretary of the Maintenance Corporation.

(c) Such other limitations and restrictions on Improvements as the Board in its reasonable discretion shall adopt, including, without limitation, the regulation of the placement, kind, shape, height, materials, species and location of any Improvement and the height of any Improvement other than landscaping.

(d) A description of the Improvements which, if completed in conformity with the Architectural Standards, do not require the approval of the Architectural Committee.

Section 4.03 - Functions of Architectural Committee.

(a) It shall be the duty of the Architectural Committee to consider and act upon proposals or plans submitted pursuant to the terms of the Declaration or the Architectural Standards, and to perform such other duties delegated to it by the Board.

(b) The Architectural Committee may delegate its plan review responsibilities to one or more members of such Architectural Committee. Upon such delegation, the approval or disapproval of plans and specifications by such persons shall be equivalent to approval or disapproval by the entire Architectural Committee.

(c) The Architectural Committee may, from time to time, subject to the approval of the Board, adopt, amend and repeal Architectural Committee Rules may require the prepayment of a deposit to be applied toward the payment of any Special Assessment levied by the Board if such Owner fails to restore any portion of the Covered Property to a clean and attractive condition and may assess a reasonable fee as appropriate for the type and nature of the Improvement, in connection with the review of plans and specifications for proposed Improvements, including without limitation, a procedure for approval of preliminary plans and drawings, as well as final approval, the number of sets of plans to be submitted, and may require such detail as it deems proper, including without limitation, floor plans, site plans, elevation drawings, and descriptions or samples of exterior material and colors.

(d) Unless all of the rules of the Architectural Committee have been complied with, plans and specifications shall be deemed not submitted. Approval of plans and specifications by the SAMLARC architectural committee or Board of Directors shall not be deemed to be approval by the Architectural Committee required hereunder as such plans and specifications must also be submitted to and approved by the Architectural Committee of the Maintenance Corporation and the decisions of the SAMLARC Board of Directors shall prevail only to the extent of any conflict with a decision of the Board of Directors hereunder.

Section 4.04 - Allowable Modifications. An Owner shall have the right to make certain modifications in accordance with Section 1360 of the California Civil Code which as of the date of this Declaration, provides that subject to the provisions of the Maintenance Corporation Management Documents and other applicable provisions of law, if the boundaries of the Unit are contained within a building, the Owner of such Unit may do the following:

(a) Make any Improvements within the boundaries of such Owner's Unit that do not impair the structural integrity or mechanical systems or lessen the support of any portion of the Covered Property; or

(b) Modify a Unit, at the Owner's expense, to facilitate access for persons who are blind, visually handicapped, deaf, or physically disabled, or to alter conditions which could be hazardous to these persons. These modifications may also include modifications of the route from the public way to the door of the Unit for the purposes of this paragraph if the Unit is on the ground floor or already accessible by an existing ramp or elevator. The modifications shall be consistent with applicable building code requirements and shall be consistent with the intent of otherwise applicable provisions of the Maintenance Corporation Management Documents pertaining to safety or aesthetics. The modifications external to the dwelling shall not prevent reasonable passage by other residents, and shall be removed by the Owner when the Unit is no longer occupied by persons requiring those modifications who are blind, visually handicapped, deaf, or physically disabled.

Any change in the exterior appearance of a Unit shall be in accordance with the Maintenance Corporation Management Documents and applicable provisions of law.

Section 4.05 - Approval of Plans.

(a) No Improvements shall be made upon the Covered Property including those made pursuant to California Civil Code Section 1360 as provided above except in compliance with plans and specifications therefor which have been submitted to and approved

by the Architectural Committee except as may otherwise be provided in the Architectural Standards. An Owner who intends to modify a Unit pursuant to the foregoing Section entitled "Allowable Modifications" shall submit plans and specifications to the Architectural Committee to determine whether the modifications comply with such Section. The Architectural Committee shall not deny approval of the proposed modifications which comply with the provisions of subparagraph (b) of said Section without good cause.

(b) The Architectural Committee shall review plans and specifications submitted for its approval as to style, exterior design, appearance and location and shall approve such plans and specifications only if it deems that the proposed Improvement will not be detrimental to the appearance of the Development as a whole; that the Improvement complies with the Architectural Standards; that the appearance of any Improvements will be in harmony with the surrounding structures; that the construction of any Improvement will not detract from the beauty and attractiveness of the Development or the enjoyment thereof by the Owners; and that the upkeep and maintenance of any Improvement will not become a burden on the Maintenance Corporation. The Architectural Committee (i) may determine that such Improvement cannot be approved because of its effect on existing drainage, utility or other easements, (ii) may require submission of additional plans and specifications or other information or materials prior to approving or disapproving plans and specifications submitted, or (iii) may condition its approval of plans and specifications for any Improvement on such changes therein as it deems appropriate such as, and without limitation, the approval of such Improvement by a holder of an easement which may be impaired thereby or upon approval of any such Improvement by the appropriate governmental entity. Any Architectural Committee approval conditioned upon the approval by a governmental entity shall not imply the Maintenance Corporation is enforcing any government codes or regulations, nor shall the failure to make such conditional approval imply that any such governmental agency approval is not required.

(c) In the event the Architectural Committee fails to approve or disapprove such plans and specifications within thirty (30) days after the same have been duly submitted in accordance with any rules regarding such submission adopted by the Architectural Committee, such plans and specifications will be deemed approved.

Section 4.06 - Nonliability for Approval. Plans and specifications are not approved for (a) engineering design, (b) compliance with zoning and building ordinances, and other applicable statutes, ordinances or governmental rules or regulations, (c) compliance with the requirements of any public utility, or (d) any easements or other agreement, and by

approving such plans and specifications neither the Architectural Committee, the members thereof, the Maintenance Corporation, the Owners, the Board nor Declarant, nor agents, employees, attorneys or consultants of any of the foregoing, assume liability or responsibility therefor, or for any defect in any Improvement constructed from such plans and specifications.

Section 4.07 - Appeal. In the event plans and specifications submitted to the Architectural Committee are disapproved thereby, the party or parties making such submission may appeal in writing to the Board. The written request shall be received by the Board not more than fifteen (15) days following the final decision of the Architectural Committee. The Board shall submit such request to the Architectural Committee for review, whose written recommendations are to be submitted to the Board. Within forty-five (45) days following receipt of the request for appeal, the Board shall render its written decision. The failure of the Board to render a decision within said forty-five (45) day period shall be deemed a decision in favor of the appellant.

Section 4.08 - Evidence of Approval. If for any reason the Architectural Committee fails to cause an inspection to be made within forty-five (45) days of being notified by the Owner of the completion of an Improvement or fails to notify the Owner of any noncompliance within thirty (30) days after an inspection, the Improvement shall be deemed to be completed in substantial conformance with approved plans and specifications. Upon satisfactory completion, an Owner shall be entitled to receive an executed and notarized notice of compliance upon request, executed by any person or persons authorized by resolution of the Board or by the president and secretary of the Maintenance Corporation. Such notice of compliance shall be conclusive evidence of compliance with the provisions of this Article as to the Improvements described in the notice.

Section 4.09 - Nonconformity. In the event an Improvement was commenced without the required approval of the Architectural Committee, or, if such Improvement was not completed in substantial conformance with the approved plans and specifications, the Architectural Committee shall correct the violation in accordance with the procedure described in the Article entitled "Discipline of Members" of the Bylaws.

Section 4.10 - Variances. The Board may authorize a variance from compliance with the architectural controls set forth in this Article when circumstances such as topography, natural obstructions, hardship, aesthetic, or environmental consideration may require; provided, however, that no variance from the use restrictions contained in the Article entitled "Use Restrictions" of this Declaration may be granted. Written evidence of such variance must be delivered to such Owner and a copy of the resolution of the Board authorizing such variance must be

retained in the permanent records of the Maintenance Corporation. If such variances are granted, no violation of the covenants, conditions and restrictions contained in the Maintenance Corporation Management Documents shall be deemed to have occurred with respect to the matter for which the variance was granted. The granting of such a variance shall not operate to waive any of the terms and provisions of the Maintenance Corporation Management Documents for any purpose except as to the particular Condominium and particular provision of this Article covered by the variance, nor shall it affect in any way the Owner's obligation to comply with all government laws and regulations affecting his use of his Condominium including, but not limited to, zoning ordinances and lot setback lines or requirements imposed by any governmental or municipal authority.

Section 4.11 - Reconstruction After Destruction. The reconstruction after destruction by casualty or otherwise of any Residences which is accomplished in substantial compliance with the provisions of the Section entitled "Compliance with Condominium Plan" of the Article entitled "Destruction of Improvements" of this Declaration shall not require compliance with this Article.

Section 4.12 - Subterranean Improvements. No Improvement in a Subterranean Unit Element which will extend beneath the surface of the ground for a distance of more than six (6) inches shall be commenced unless plans and specifications therefor have been approved by the Architectural Committee. Without limiting the generality of the foregoing, the Architectural Committee shall not approve plans or specifications for any such subterranean Improvement which interferes with the drainage to or through a Subterranean Unit Element unless adequate provision has been made to relocate the drainage flow to the satisfaction of the Architectural Committee. The procedures used by the Architectural Committee shall be adopted by the Board for submitting such plans and specifications, approval of and conformity to such plans and specifications, time limitations for completion of Improvements in compliance with approved plans and specifications, and determining when such plans and specifications shall be deemed approved. Plans and specifications are not approved for engineering design, and by approving such plans and specifications neither the Board, the members thereof, the Maintenance Corporation, the Members nor Declarant assumes liability or responsibility therefor, or for any defect in any structure constructed from such plans and specifications.

Section 4.13 - Control in SAMLARC. No Improvements shall be made until there has been compliance with the provisions of the Article entitled "Architectural Control" and the architectural, landscape and construction regulations and restrictions of the SAMLARC Declaration. In the event of irreconcilable differences

between decisions by the SAMLARC board of directors and the Board pertaining to architectural and landscape control, the decision of the SAMLARC board of directors shall prevail to the extent necessary to eliminate such conflict.

Section 4.14 - Condominium Common Area Improvements. An Owner, at his sole cost and expense, may install air conditioning equipment. The plans and specifications for such installation shall require the approval of the Board in addition to the approval of the Architectural Committee.

ARTICLE VINSURANCE

Section 5.01 - Obligation to Insure. The Maintenance Corporation shall obtain and maintain in effect insurance and fidelity bond coverage in the amounts and with endorsements deemed adequate by the Board which shall be not less than the coverages hereinafter required in this Section. In addition, the Maintenance Corporation shall obtain such additional endorsements and coverages meeting the requirements established by any of the Federal Agencies for condominium planned developments, when any such Federal Agency first becomes and as long as it continues to be either a Mortgagee, Owner, insurer or guarantor of a Mortgage within the Covered Property except to the extent such coverage or endorsements are not available or have been waived in writing by the applicable Federal Agencies.

(a) Public Liability Insurance. The comprehensive public liability insurance policy shall insure the Maintenance Corporation, the Declarant for as long as Declarant is an Owner, and the agents and employees of each and the Owners and the respective family members, guests and invitees of the Owners against any liability incident to the ownership or use of the Common Area or any other areas under the supervision of the Maintenance Corporation. The limits of such insurance shall not be less than One Million Dollars (\$1,000,000) for claims arising out of a single occurrence for bodily injury, deaths of persons and property damage. Coverage under this policy shall include without limitation liability of the insureds for property damage, bodily injury and deaths of persons in connection with the operation, maintenance or use of the Common Area and legal liability arising out of lawsuits related to employment contracts of the Maintenance Corporation. If such policy does not include "severability of interest" in its terms, a specific endorsement will be required precluding the insurer from denying the claim of an Owner because of negligent acts of the Maintenance Corporation or other Owners and such other coverage in kinds and amounts required by private institutional mortgage investors for projects similar in construction, location and use.

(b) Fire and Casualty Insurance. The master or blanket policy of fire and casualty insurance shall cover all of the insurable Improvements within the Covered Property, including Residence Improvements and fixtures and building service equipment that are part of the Common Area as well as common personal property and supplies belonging to the Maintenance Corporation.

The policy shall be in an amount equal to one hundred percent (100%) of the current replacement cost, without deduction for

depreciation or coinsurance, of all of the property covered by the policy.

Such insurance must afford protection against at least loss or damage by fire and other perils normally covered by the standard extended coverage endorsement, and such other perils which are customarily covered and required by private institutional mortgage investors with respect to similar condominium projects in the area of the Covered Property, including all perils normally covered by the standard "all risk" endorsement. The policy shall name as insured the Maintenance Corporation, for the use and benefit of the Owners, designated by name or may be issued in the name of the Trustee for the use and benefit of the Owners. Loss payable clause shall be in favor of the Maintenance Corporation or the Trustee as trustee for each Owner and each such Owner's Mortgagee(s), if any. Unless a higher maximum amount is required by state law, the maximum deductible amount for policies covering all of the insurable Improvements in the Covered Property is the lesser of Ten Thousand Dollars (\$10,000) or one percent (1%) of the face amount of the policy.

(c) Fidelity Bonds. The blanket fidelity bond shall cover losses resulting from dishonest or fraudulent acts on the part of anyone who handles or is responsible for funds held or administered by the Maintenance Corporation, including directors, officers, trustees, employees or volunteers of the Maintenance Corporation. Where the Maintenance Corporation delegates some or all of the responsibility for the handling of funds to a management agent, fidelity bonds are required for its officers, employees and agents handling or responsible for funds of, or administered on behalf of, the Maintenance Corporation. A management agent who handles funds for the Maintenance Corporation should also be covered by its own fidelity bond which must provide the same coverage required by the Maintenance Corporation and must submit evidence of such coverage to the Maintenance Corporation. The Maintenance Corporation should be named as an additional obligee in the management agent's bond. The fidelity bond should cover the maximum funds that will be in the custody of the Maintenance Corporation or its management agent at any time while the bond is in force. In addition, the fidelity bond shall be written in an amount equal to three (3) months' aggregate Regular Assessments on all Condominiums, including reserves. Fidelity bonds shall name the Maintenance Corporation as obligee and shall contain waivers of any defense based on the exclusion of persons who serve without compensation from any definition of "employee" or similar expression.

(d) Flood Insurance. If the Covered Property, or any portion thereof is located within an area having special flood hazards and for which flood insurance has been made available under the National Flood Insurance Program (NFIP), the Maintenance Corporation shall obtain a master or blanket policy

of flood insurance providing the coverage customarily required by private institutional mortgage investors with respect to similar condominium planned developments in the area of the Covered Property.

(e) Worker's Compensation Insurance. The Board shall purchase and maintain in force worker's compensation insurance, to the extent that the same shall be required by law, for all employees of the Maintenance Corporation.

(f) Mortgage Clause. All insurance policies must have the "standard mortgage clause" or equivalent endorsement providing that coverage of a Mortgagee under the insurance policy will not be adversely affected or diminished by an act or neglect of the Mortgagor, which is commonly accepted by private institutional mortgage investors in the area in which the Covered Property is located, unless such coverage is prohibited by applicable law and in the case of Mortgages owned by FNMA, must name as Mortgagee either FNMA or the servicers for the Mortgages held by FNMA encumbering the Condominiums. When a servicer is named as the Mortgagee, its name should be followed by the phrase "its successors and assigns." A mortgage clause in favor of Mortgagees holding Mortgages on Condominiums is not required on a policy insuring the Maintenance Corporation Property.

Section 5.02 - Notice of Cancellation or Modification. All insurance policies maintained by the Maintenance Corporation must provide that such policies may not be cancelled, reduced or substantially modified without at least ten (10) days' prior written notice to the Maintenance Corporation and to each First Mortgagee listed as a scheduled First Mortgagee in the policy. All fidelity bonds maintained by the Maintenance Corporation must provide that such fidelity bonds may not be cancelled or substantially modified without at least ten (10) days' prior written notice to the Maintenance Corporation or the Trustee and each mortgage servicing contractor acting on behalf of any of the Federal Agencies.

Section 5.03 - Waiver by Owners. All insurance obtained by the Maintenance Corporation shall be maintained by the Maintenance Corporation for the benefit of the Maintenance Corporation, the Owners and the Mortgagees as their interests may appear. As to each of said policies which will not be voided or impaired thereby, the Owners hereby waive and release all claims against the Maintenance Corporation, the Board, other Owners, the Declarant and agents and employees of each of the foregoing, with respect to any loss covered by such insurance, whether or not caused by negligence or breach of any agreement by said persons, but to the extent of insurance proceeds received in compensation for such loss only.

Section 5.04 - Required Waiver. All policies of physical damage insurance shall provide for waiver of the following rights to the extent such waivers are obtainable from the respective insurers:

(a) Subrogation of claims against the Owners or tenants of the Owners;

(b) Any defense based on co-insurance;

(c) Any right of set-off, counterclaim, apportionment, proration or contribution by reason of other insurance not carried by the Maintenance Corporation;

(d) Any invalidity, other adverse effect or defense on account of any breach of warranty or condition caused by the Maintenance Corporation, any Owner or any tenant of any Owner, or arising from any act, neglect or omission of any named insured or the respective agents, contractors and employees of any insured;

(e) Any right of the insurer to repair, rebuild or replace and, in the event the building is not repaired, rebuilt or replaced following loss, any right to pay under the insurance the lesser of the replacement value of the Improvements insured or the fair market value thereof;

(f) Notice of the assignment of any Owner of its interest in the insurance by virtue of a conveyance of any Condominium; and

(g) Any right to require any assignment of any Mortgage to the insurer.

Section 5.05 - Annual Insurance Review. The Board shall at least annually determine whether the amounts and types of insurance it has obtained provide adequate coverage in light of increased construction costs, inflation, practice in the area in which the Covered Property is located, or any other factor which tends to indicate that either additional insurance policies or increased coverage under existing policies are necessary or desirable to protect the interest of the Owners and of the Maintenance Corporation. If the Board determines that increased coverage or additional insurance is appropriate, it shall obtain the same.

Section 5.06 - Rights of Owners to Insure. Nothing contained in this Declaration shall preclude an Owner from insuring Improvements not insured by the Maintenance Corporation pursuant to the subsection entitled "Fire and Casualty Insurance" of this Article. Should any Owner separately insure his Residence or any part thereof against loss by fire or other casualty, and should any loss intended to be covered by insurance carried by the Maintenance Corporation occur and the proceeds payable thereunder be reduced by reason of insurance carried by such Owner, such Owner shall assign the proceeds of such insurance

carried by it to the extent of such reduction to the Trustee for application by the Board to the same purposes as the reduced proceeds are to be applied. In the event that such Owner has failed to pay such amount within thirty (30) days of a written demand therefor by the Maintenance Corporation or the Trustee, the Board may levy a Special Assessment against such Owner and his Condominium for such amount. It is the responsibility of each Owner to insure his personal property against loss by fire or other casualty and to carry public liability insurance covering his individual liability for damage to persons or property occurring inside his individual Residence. All such policies as may be carried by the Owners shall contain waivers of subrogation of claims against the Maintenance Corporation, the Board, other Owners, Declarant and the agents and employees of each of the foregoing with respect to any loss covered by such insurance; whether or not caused by negligence or breach of any agreement by said persons, but to the extent of insurance proceeds received in compensation for such loss only; provided, however, such other policies shall not adversely affect or diminish any liability under any insurance obtained by the Maintenance Corporation. Duplicate copies or certificates of such other policies shall be deposited with the Board.

ARTICLE VIENFORCEMENT OF BONDED OBLIGATIONS

In the event that the Improvements to the Common Area have not been completed prior to the issuance of a Final Subdivision Public Report covering the Covered Property, and the Maintenance Corporation is obligee under a bond or other arrangement (the "Bond") to secure performance of the commitment of Declarant to complete such Improvements, the following provisions shall apply:

(a) The Board shall consider and vote on the question of action by the Maintenance Corporation to enforce the obligations under the Bond with respect to any Improvements for which a Notice of Completion has not been filed within sixty (60) days after the completion date specified for such Improvements in the planned construction statement appended to the Bond. If the Maintenance Corporation has given an extension in writing for the completion of any Common Area Improvement, the Board shall consider and vote on the aforesaid question if a Notice of Completion has not been filed within thirty (30) days after the expiration of such extension.

(b) In the event that the Board determines not to initiate action to enforce the obligations under the Bond, or in the event the Board fails to consider and vote on such question as provided above, Members representing not less than five percent (5%) of the total voting power of the Maintenance Corporation may present a signed petition to the Board or to the president or secretary of the Maintenance Corporation demanding a meeting for the purpose of voting to override such decision or such failure to act by the Board. Such meeting shall be called according to the provisions of the Bylaws dealing with meetings of the Members, but in any event such meeting shall be held not less than thirty-five (35) days nor more than forty-five (45) days after receipt by the Board of a petition for such meeting.

(c) The only Members entitled to vote at such meeting of Members shall be the Members other than Declarant. A vote at such meeting of a majority of the voting power of such Members other than Declarant to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Maintenance Corporation and the Board shall thereafter implement this decision by initiating and pursuing appropriate action in the name of the Maintenance Corporation.

ARTICLE VIIREPAIR AND MAINTENANCE

Section 7.01 - By Maintenance Corporation. Except to the extent that an Owner may be obligated to maintain and repair as hereinafter provided, and without limiting the generality of the statement of duties and powers contained in the Maintenance Corporation Management Documents, the Maintenance Corporation acting through its Board and its officers shall have the duty to accomplish the following upon the Covered Property or other land in such manner and at such times as the Board shall prescribe:

(a) manage, operate, control, maintain, repair, restore, replace and make necessary Improvements to the Common Area other than Exclusive Use Common Area, including, without limitation, the following:

(i) the exterior surfaces of all Condominium Buildings, to include the painting thereof, including, without limitation, the interior surface boundaries of Unit Elements and Exclusive Use Common Area, which are exterior walls of Condominium Buildings;

(ii) private walkways, bicycle paths, trails or other pedestrian paths;

(iii) private streets and adjacent streetscapes within the Covered Property in conformance with the standard of maintenance established by the responsible public official of the Local Government for public streets and streetscapes; and

(iv) Improvements occasioned by the presence of wood-destroying pests and organisms;

(b) maintain and make necessary repairs to the Exclusive Use Common Area except to the extent Exclusive Use Common Area is required to be maintained by an Owner as hereinafter provided;

(c) maintain, repair, restore and replace those drainage facilities and easements located within the Condominium Common Area and in Subterranean Unit Elements that service the Condominium Common Area and more than one Unit in accordance with the requirements of the County Flood Control District;

(d) maintain the exterior (defined to mean the side fronting on public right-of-way or Maintenance Corporation Property) of those lot perimeter walls or fences identified on Exhibit A; and

(e) maintain all other areas, facilities, equipment, services or aesthetic components of whatsoever nature as may from

time to time be requested by the vote or written consent of a majority of the voting power of the Maintenance Corporation.

The costs of any such maintenance and repair pursuant to this Section shall be a Common Expense except as otherwise specified in this Declaration. The costs of temporary relocation during the repair and maintenance of the areas within the responsibility of the Association shall be borne by the Owner of the Unit affected.

Section 7.02 - By Owner. Each Owner shall:

(a) maintain, repair, replace and restore in a clean, sanitary and attractive condition all portions of the Residential Element, including, without limitation, the interior walls, ceilings, floors and doors, and shall also be responsible for the maintenance and repair of plumbing, electrical and heating systems servicing his Residence and located within the outside perimeter of the exterior bearing walls thereof, including internal and external telephone wiring serving such Residence, television cable equipment and connections and all appliances and equipment located within said Residence, and all interior surfaces of the Unit Elements comprising the Unit other than interior surface boundaries which are exterior surfaces of Condominium Building Walls. Without limiting the generality of the foregoing, Owners shall maintain all plants or other growing things emplaced or located within the nonresidential elements of Units, and such plants or other growing things shall be permitted to encroach into or onto the Common Area, subject to the Article entitled "Architectural Control" of this Declaration, provided, however, that no Owner shall permit any trees or similar landscaping located within the Patio element of his Unit to encroach beyond his Patio. Should an Owner fail to maintain the trees and other landscaping within his Patio in compliance with this restriction, the Maintenance Corporation may, in its sole discretion and upon compliance with the notice and hearing requirements referenced in Section 16.10, enter upon an Owner's Residence to perform such maintenance work and the cost thereof shall constitute a Special Assessment against the Owner and his Condominium;

(b) repair and replace all glass and other portions of windows and all portions of any skylights, including frames, for his own Residence, and Owners shall be responsible for the interior and exterior cleaning of such glass and skylights;

(c) maintain in a clean and attractive condition his Entry Landing or Stairway. Owner shall not be permitted to store or place any furniture, equipment, or any other item or article thereon.

(d) repair, maintain or replace all Improvements within the interior undecorated surfaces of the Garage as well as any garage door opening systems, any shutters, window boxes or pot shelves, doorsteps, stoops, porches, exterior doors, including, without limitation, Garage doors, and French doors, door frames and hardware incident thereto or screens and windows or other fixtures designed to serve a particular Unit but located outside the boundaries of such Unit.

In the event the Board shall determine that any portion of the Covered Property required to be maintained by the Maintenance Corporation has been damaged or destroyed by any negligent or malicious act or omission of any Owner, his guests, tenants, servants, agents or invitees, such Owner shall be responsible for the cost of repairing such damage in accordance with the Article entitled "Discipline of Members" of the Bylaws. Any increase in insurance payable by the Maintenance Corporation which is the result of damage by any negligent or malicious act or omission of a particular Owner, or any of such Owner's guests, employees, licensees, agents or invitees, shall also be paid by such Owner. The Board shall have the power to levy a Penalty Assessment against such Owner for the cost of repair or for an amount equal to any such increase in premium.

Section 7.03 - Noncompliance by Owner. In the event that an Owner fails to accomplish any installation, maintenance or repair required by this Article, after approval by two-thirds (2/3rds) vote of the Board, the Board shall give notice to the Owner describing the deficiency and setting a date for a hearing before the Board or a committee selected by the Board for such purpose. The procedure for such notice and hearing and for the correction of the violation is described in the Article entitled "Discipline of Members" of the Bylaws.

Section 7.04 - Maintenance of Public Utilities. Nothing contained herein shall require or obligate the Maintenance Corporation to maintain, replace or restore the underground facilities or public utilities which are located within easements in the Common Area owned by such public utilities.

Section 7.05 - Transfer of Common Area.

(a) The Maintenance Corporation Property within a Phase shall be conveyed to the Maintenance Corporation prior to or concurrently with the first conveyance of a Condominium located within such Phase. Declarant shall convey the Maintenance Corporation Property to the Maintenance Corporation free of all liens and encumbrances except current real property taxes and assessments (which taxes and assessments shall be prorated as of the date of conveyance), title exceptions of record and the covenants, conditions, reservations and restrictions contained in this Declaration and the instrument which conveys the Maintenance Corporation Property to the Maintenance Corporation.

(b) The Maintenance Corporation shall be deemed to have accepted the obligation to maintain the Improvements upon the Common Area and any other Improvements required to be maintained by the Maintenance Corporation within any Phase (i) when such Improvements have been completed in substantial conformance with the plans and specifications therefor and (ii) when Regular Assessments have commenced upon the Condominiums within such Phase. The issuance of a certificate by the architect who designed any such Improvements stating that such Improvements are in substantial conformance with the original plans and specifications, shall be satisfactory evidence of such completion.

The Maintenance Corporation shall release Declarant from the Bond defined in the Article entitled "Enforcement of Bonded Obligations" of this Declaration as to any Improvements accepted for maintenance as provided above.

Section 7.06 - Temporary Relocation. The Maintenance Corporation may cause the temporary, summary removal of any occupant of a Residence for such periods and at such times as may be necessary for the prompt, effective treatment of wood-destroying pests or organisms. The Maintenance Corporation shall give notice of the need to temporarily vacate a Residence to the occupants and to the Owners of such Residence not less than fifteen (15) days nor more than thirty (30) days prior to the date of the temporary relocation. The notice shall state the reason for the temporary relocation, the date and time of the beginning of treatment, the anticipated date and time of termination of treatment, and that the occupants will be responsible for their own accommodations during the temporary relocation. Notice by the Maintenance Corporation shall be deemed complete upon either:

(a) personal delivery of a copy of the notice to the occupants, and sending a copy of the notice to the Owner of the affected Residences, if Owner is not the occupant, by first-class mail, postage prepaid; or

(b) by sending a copy of the notice to the occupants at the Residence address and a copy of the notice to the Owner of the affected Residence, if Owner is not the occupant, by first-class mail, postage prepaid.

Notices to Owners pursuant to this Section shall be mailed to the most current address shown for such Owner on the books of the Maintenance Corporation. For purposes of this Section, "occupant" means an Owner, resident, guest, invitee, tenant, lessee, sublessee, or other person in possession of a Residence.

Section 7.07 - Replacement of Floor Covering. Each Owner of a Unit which is located on a second story elevation of a Condominium Building as shown on any Condominium Plan shall not

install any hardwood, tile or other similar flooring materials in any portion of his Unit except in the entry or kitchen area. Notwithstanding any provision set forth in this Declaration, the replacement of such flooring shall comply with the requirements set forth in the Article entitled "Architectural Control" of the Declaration. In addition to such requirements, each Owner of such a Unit shall in connection with the submittal of plans and specifications to the Architectural Committee, include a certification from an acoustical engineer that upon completion, the proposed work shall comply with all requirements for sound attenuation of the State of California and any other applicable governmental entity.

ARTICLE VIIIEASEMENTS AND RIGHTS

Section 8.01 - Nature of Easements. Unless otherwise set forth herein, all easements reserved to Declarant herein shall be nonexclusive.

Section 8.02 - Oil and Mineral Rights. Rancho Santa Margarita Joint Venture, a California general partnership (the "Company") has reserved, together with the right to grant and transfer the same:

(a) all oil, oil rights, minerals, mineral rights, natural gas rights, and other hydrocarbons by whatsoever name known, geothermal steam, and all products derived from any of the foregoing, that may be within or under the Covered Property together with the perpetual right of drilling, mining, exploring and operating therefor and storing in and removing the same from said land or any other land, including the right to whipstock or directionally drill and mine from lands other than the Covered Property, oil or gas wells, tunnels and shafts into, through or across the subsurface of the Covered Property and to bottom such whipstocked or directionally drilled wells, tunnels and shafts under and beneath or beyond the exterior limits thereof, and to redrill, retunnel, equip, maintain, repair, deepen and operate any such wells or mines without, however, the right to drill, mine, store, explore and operate through the surface or the upper five hundred (500) feet of the subsurface of the Covered Property.

(b) the right and power to use or utilize on any other property owned or leased by Company, any and all water rights or interests in water rights no matter how acquired by Company, and all water rights or interests in water rights that may be within, under or on the Covered Property, whether such water rights shall be riparian, overlying, appropriative, percolating, prescriptive or contractual, provided, however, that the reservation did not reserve to or for the benefit of Company any right to enter upon the surface of the Covered Property in the exercise of such rights.

Section 8.03 - Reservations to Declarant. There is hereby reserved to the Declarant, together with the right to grant and transfer same:

(a) Improvements. Easements (i) over the Common Area for the purpose of constructing, erecting, operating and maintaining thereon, therein or thereunder roads, streets, walks, driveways, parkways and park areas and (ii) over the Covered Property for the installation and maintenance of electric, telephone, cable

television, water, gas, irrigation lines, sanitary sewer lines and drainage facilities.

(b) Cable Television. The right to emplace on, under or across the Covered Property transmission lines and other facilities for a cable television or a community antenna television system and the right to enter upon the Covered Property to service, maintain, repair, reconstruct and replace said lines or facilities.

(c) Construction and Sales. Easements for construction, display, maintenance, sales and exhibit purposes over the Common Area in connection with the erection and sale or lease of Condominiums within the Covered Property provided, however, that such use shall not be for a period beyond (i) seven (7) years after conveyance of such Common Area to the Maintenance Corporation, or (ii) the sale by Declarant of all Condominiums within the Development, whichever of (i) or (ii) occurs first.

(d) Utilities Shown on Tract Map. Easements over the Covered Property for the installation and maintenance of electric, telephone, cable television, water, gas, sanitary sewer lines and drainage facilities as shown on any recorded final tract or parcel map covering the Covered Property.

(e) Utilities. Easements over any Subterranean Unit Element for the installation and maintenance of drainage facilities and public utilities under the surface of any land in said Subterranean Unit Element, provided that such installation and maintenance shall not unreasonably interfere with an Owner's use and enjoyment of his Unit Element or damage or weaken any Improvement constructed therein.

(f) Ingress and Egress. Easements over the private streets within the Covered Property for ingress, egress, use and enjoyment for the benefit of the Annexation Property.

The easements reserved to Declarant in this Section shall not unreasonably interfere with the use and enjoyment by the Owners of the Covered Property and any damage or restoration necessitated by any such installation, construction or maintenance shall be completed by Declarant within a reasonable time after the occurrence of such damage or need for restoration.

Declarant's rights to come on the Common Area under this Section shall terminate upon the earlier of (i) the expiration of seven (7) years from the date of the conveyance of the Maintenance Corporation Property to the Maintenance Corporation, or (ii) the sale by Declarant of all Condominiums within the Development, whichever is first to occur, provided, however, in no event shall Declarant's rights hereunder terminate prior to the exoneration of any Bond in favor of the Maintenance Corporation described in

the Article entitled "Enforcement of Bonded Obligations" of this Declaration.

Section 8.04 - Easements for Owners. There is hereby reserved to Declarant, together with the right to grant and transfer same:

(a) Ingress, Egress and Recreational Rights. Easements for ingress, egress, use and enjoyment (which includes, without limitation, the unrestricted right of ingress and egress to such Owner's Residence) on and upon the Common Area. Such easement shall be appurtenant to each Condominium within the Covered Property.

(b) Access for Maintaining Telephone Wiring. Easement for reasonable access over the Common Area for the purpose of maintaining the internal and external telephone wiring servicing such Owner's Residence.

These rights shall be subject to control and management by the Maintenance Corporation as more particularly provided in the Maintenance Corporation Management Documents.

(c) Exclusive Use Common Area Easement. Easements over the Exclusive Use Common Area appurtenant to such Unit. The easement of enjoyment over the Common Area granted to Owners in this Section shall not apply to those portions of the Common Area designated as Exclusive Use Common Area.

Such easements when granted to Owners shall be subject to all of the easements, covenants, conditions, restrictions and other provisions contained in the Maintenance Corporation Management Documents, including the prior rights of the Maintenance Corporation.

Section 8.05 - Easements for Maintenance Corporation. There is hereby reserved to Declarant, together with the right to grant and transfer the same to the Maintenance Corporation with the right of the Maintenance Corporation to grant and transfer same, easements over the Covered Property for the purpose of permitting the Maintenance Corporation to discharge its obligations and powers as described in the Maintenance Corporation Management Documents including without limitation a right of entry for such purpose as provided in the Bylaws.

Section 8.06 - Support, Settlement and Encroachment. There is hereby reserved to Declarant, together with the right to grant and transfer the same, the following reciprocal easements for the purposes set forth below:

(a) An easement appurtenant to each Residence which is contiguous to another Residence or Common Area which Residence

shall be the dominant tenement and the contiguous Residence or Common Area shall be the servient tenement.

(b) An easement appurtenant to the Common Area contiguous to a Residence or other Common Area, which Common Area shall be the dominant tenement and which contiguous Residence or Common Area shall be the servient tenement.

(c) Said easements shall be for the purposes of:

(i) engineering errors, errors in construction, reconstruction, repair, support, and accommodation of the natural settlement or shifting of any portion of the Improvements and for the maintenance thereof;

(ii) minor encroachments by reason of a roof or eave overhang and for the maintenance of such roof or eave overhang by the owner of the dominant tenement for as long as such encroachments exist; and

(iii) encroachment of fireplaces, doorsteps, foundations, footings, garage doors, utilities and other appurtenances or fixtures and the maintenance thereof by the owner of the dominant tenement, which, in the construction of the structures upon the dominant tenement or from any reconstruction or modifications of such structures, project beyond the external surface of the outer walls of such structures.

The rights and obligations of owners of the dominant tenements shall not be altered in any way by said encroachments, settlement or shifting provided, however, that in no event shall an easement for encroachment be created in favor of an owner of the dominant tenement if said encroachment occurred due to the willful misconduct of any such owner. In the event any portion of a structure on the Covered Property is partially or totally destroyed and then repaired or rebuilt, each such owner agrees that minor encroachments over adjoining Residences or Common Area shall be easements for the maintenance of said encroachments as long as they shall exist.

Section 8.07 - Utilities and Cable Television. Wherever sanitary sewer house connections, water house connections, air conditioning connections or ducts, electricity, gas, telephone and cable television lines or drainage facilities are installed within the Covered Property, the Maintenance Corporation or any Owner as the owner of any property served by said connections, lines or facilities shall have the right, and there is hereby reserved to Declarant, together with the right to grant and transfer the same to any such owner, an easement to the full extent necessary for the full use and enjoyment of such portion of such connections which service such owner's property, and to

enter, or have utility or cable television companies enter upon any portion of the Covered Property including without limitation, upon the Residences in or upon which said connections, lines or facilities or any portion thereof lie, to repair, replace and generally maintain said connections, lines and facilities as and when the same may be necessary, provided that any damage caused by such entry shall be repaired by such owner, utility or cable television company as promptly as possible after completion of work thereon.

Section 8.08 - Additional Exclusive Use Common Areas. There is hereby reserved to Declarant, together with the right to grant and transfer same, easements over the Common Area, or any portion thereof, for the exclusive use by an Owner or Owners of contiguous property as a yard, recreational, gardening, and/or landscaping area, and for minor encroachment of any Improvements thereon and the repair and maintenance thereof. Any such easement when conveyed shall be deemed to be Exclusive Use Common Area (notwithstanding that all or a portion thereof may be located on Maintenance Corporation Property) to the same extent as if so described in this Declaration or on a Condominium Plan. Such easement shall not be effective unless approved by the Board. The Board shall approve any such easement if it has determined that it would be in the best interests of the Maintenance Corporation and the remaining Owners to create such Exclusive Use Common Areas for the benefit of any particular Owner or Owners of any such contiguous property. For example and without limitation, it would be beneficial to the Maintenance Corporation and the remaining Owners to transfer the burden of management and maintenance of any property which in the reasonable judgment of the Board is generally inaccessible to the remaining Owners or is not likely to be used by the remaining Owners. Upon conveyance, such Exclusive Use Common Area shall be appurtenant to the property of the Owner who has the exclusive use thereof. Such easement may contain modifications of the covenants, conditions and restrictions as they pertain to such easement area and shall also be subject to any additional terms, conditions and restrictions that may be imposed by the Board.

Section 8.09 - Public Bicycle and Pedestrian Trails. There is hereby reserved to Declarant, together with the right to grant and transfer the same, an easement for public ingress and egress over any bicycle, pedestrian, equestrian or other trails shown on any recorded final tract or parcel map covering the Covered Property: The reservation of this easement shall not imply any right of public use of the Covered Property or Improvements.

Section 8.10 - Subordination. Except as may be otherwise provided in the grant or dedication of an easement, any easement conveyed in favor of a public authority shall be prior and superior to all other easements described herein, and any easement conveyed pursuant to the provisions of this Article to a

utility company shall be prior and superior to all other easements described herein except any easement in favor of a public authority. Grantor and any grantee by acceptance of a conveyance of any easement described in this Declaration, whether or not so stated in such conveyance document, agree that such easement shall be subordinate to any such prior and superior easements and further agree to execute any document acknowledging such subordination that may be required by the holder of any such prior easement.

Section 8.11 - Delegation of Use. Any Owner may delegate his right of enjoyment to the Common Area to the members of his family or his tenants who reside on his Residence, or to his guests, or to a vendee under a land sales contract subject to the conditions and restrictions contained in this Declaration and the rules and regulations adopted by the Board. In the event and for so long as an Owner delegates said rights of enjoyment to his tenants, or a vendee said Owner shall not be entitled to the use and enjoyment of any facilities or equipment belonging to or controlled by the Maintenance Corporation for the use and enjoyment of its Members.

Section 8.12 - Waiver of Use. No Owner may exempt himself from personal liability for Assessments duly levied by the Maintenance Corporation, or release the Condominium owned by him from the liens, charges and other provisions of the Maintenance Corporation Management Documents by waiver of the use and enjoyment of the Common Area or the abandonment of his Condominium.

ARTICLE IXUSE RESTRICTIONS

Section 9.01 - Commercial Use. Subject to the subsection entitled "Construction and Sales" of the Section entitled "Reservations to Declarant" of the Article entitled "Easements and Rights" of this Declaration, no part of a Residence shall be used or caused to be used or allowed or authorized in any way, directly or indirectly, for any business, commercial, manufacturing, mercantile, storing, vending, or any nonresidential purposes.

Section 9.02 - Signs. No sign or billboard of any kind shall be displayed to the public view on any portion of the Covered Property except (i) such signs as may be used by Declarant or its sales agents in connection with the development of the Covered Property and sale of the Condominiums, and (ii) signs installed or displayed by the Maintenance Corporation; provided, however, that an Owner may display on his Residence a sign advertising the sale or lease of his Condominium so long as such sign shall comply with any customary and reasonable standards promulgated by the Board as to the size, color, shape or other qualification for permitted signs. The Declarant shall repair any damage to or complete any restoration of the Covered Property caused or necessitated by the display of signs by Declarant or its sales agents within a reasonable time after the occurrence of such damage or need for restoration.

Declarant's right to display signs under this Section shall terminate upon the earlier of (i) the expiration of seven (7) years from the date on which this Declaration is recorded, or (ii) the recordation of the conveyance to a third party of the last Condominium in the entire Development owned by Declarant.

Section 9.03 - Nuisance. No noxious or offensive trade or activity, including, without limitation, excessive or unreasonable electronic music or excessive barking, shall be permitted upon any part of the Covered Property, nor shall anything be done thereon which shall in any way interfere with the quiet enjoyment of each of the Owners of his respective Residence, or which shall in any way increase the rate of insurance on any other Condominium or the Covered Property.

Section 9.04 - Temporary Structures. No structure of a temporary character, trailer, tent or shack, shall hereafter be used on any Residence at any time, either temporarily or permanently.

Section 9.05 - Vehicles. Except for temporary parking as provided in this Section:

(a) No Owner shall park, store or keep any vehicle upon the Covered Property except passenger vehicles which must be parked wholly within the Garage, Carport or Assigned Parking Space. Subject to the right of SAMLARC to designate areas for the parking of recreational vehicles and equipment as provided in the SAMLARC Declaration, no commercial vehicle, recreational vehicle or equipment shall hereafter be permitted to remain upon the Covered Property unless placed or maintained within an enclosed area, or unless obscured from view of adjoining Residences, streets, and alleys, nor permitted to be parked on any street, alley, or any other portion of the Covered Property.

(b) No automobile, recreational vehicle or equipment, commercial vehicle or any other motorized vehicle may be dismantled, rebuilt, repaired, serviced or repainted on the Covered Property unless performed within a completely enclosed structure located on a Residence which completely screens the sight and sound of such activity from streets, Common Area and neighboring Residences.

(c) As used in this Section: (i) "recreational vehicle or equipment" shall include, without limitation, trailers, boats, campers, trailer coaches, buses, house cars, camp cars, mobile homes, motor homes (if a size larger than seven (7) feet in height and/or greater than one hundred twenty-four (124) inches in wheel base length), aircraft, or any other similar type of equipment or vehicle; (ii) "commercial vehicle" shall be defined as a truck of greater than three-quarter (3/4) ton capacity; and (iii) "temporary parking" shall mean temporary parking for washing and polishing of vehicles and activities related thereto, temporary parking for loading and unloading of vehicles, parking of vehicles belonging to guests of Owners and temporary parking of commercial vehicles being used in the furnishing of services to the Maintenance Corporation or the Owners.

(d) The Board may adopt rules for the regulation of the admission and parking of vehicles within the Covered Property, including the assessment of Penalty Assessments to Owners who violate, or whose invitees violate, such rules. Such rules may permit parking of recreational and commercial vehicles and equipment for limited periods of time on a non-recurring basis.

Section 9.06 - Animals. No animals, livestock or poultry of any kind shall be raised, bred or kept upon the Covered Property, except that dogs, cats or other household pets not to exceed a total of two (2) in number may be kept on the Residences, provided they are not kept, bred or maintained for any commercial purpose, or in numbers deemed unreasonable by the Board.

Notwithstanding the foregoing, no animals may be kept on the Residences which in the good faith judgment of the Board, or a committee selected by the Board for this purpose, result in any

annoyance or are obnoxious to residents in the vicinity. All animals permitted to be kept by this Section shall be kept on a leash when on any portion of the Covered Property except when confined within a Residence.

Section 9.07 - Oil and Mineral Rights. No oil drilling, oil development operations, oil refining, quarrying, or mining operations of any kind shall be permitted upon or in the Covered Property nor, subsequent to the recording of this Declaration, shall oil wells, tanks, tunnels, or mineral excavations or shafts be installed upon the surface of the Covered Property or within five hundred (500) feet below the surface of such properties. No derrick or other structure designed for use in boring for water, oil or natural gas shall be erected, maintained or permitted upon the Covered Property.

Section 9.08 - Unsightly Items. All weeds, rubbish, debris, or unsightly material or objects of any kind shall be regularly removed from the Residences and shall not be allowed to accumulate thereon. All clotheslines, refuse containers, trash cans, woodpiles, storage areas, machinery and equipment shall be prohibited upon any Residence unless obscured from view of adjoining streets or portions of the Covered Property from a height of six (6) feet or less.

Section 9.09 - Antennae; Roof Structures. No television, radio, or other electronic towers, aerials, antennae or devices of any type for the reception or transmission of radio or television broadcasts or other means of communication shall hereafter be erected, constructed, placed or permitted to remain on the Covered Property unless the same be contained within a building or underground conduits. No other appliances or installations on exterior roofs of structures including, without limitation, rooftop turbine ventilators, shall be permitted unless they are installed in such a manner that they are not visible from streets, Common Area or neighboring Residences, except that attic ventilators and solar panels which are architecturally treated in conformity with guidelines contained in the Architectural Standards and which have been approved by the Architectural Committee pursuant to the provisions of the Article entitled "Architectural Control" of this Declaration shall be permitted.

Section 9.10 - Drainage. All drainage of water from any Residence shall drain or flow into adjacent streets or alleys and shall not be allowed to drain or flow upon, across, or under any other portion of the Covered Property unless an easement for such purpose is granted. An Owner shall not alter the drainage of water which exists pursuant to the drainage plan originally created at the time of the initial sale of his Condominium by Declarant except through the use of a positive drainage device which does not materially affect the concentration or flow direction of drainage water under said drainage plan.

Section 9.11 - Garages, Carports and Assigned Parking Spaces. No Garage doors shall be permitted to remain open except for a temporary purpose, and the Board may adopt rules for the regulation of the opening of Garage doors, including the assessment of Penalty Assessments to Owners who violate or whose invitees violate such rules. Garages, Carports and Assigned Parking Spaces can be used only for the parking of passenger vehicles. Storage in Garages, Carports and Assigned Parking Spaces is not permitted. Garages, Carports and Assigned Parking Spaces cannot be used for living and recreation purposes.

Section 9.12 - Window Covers. Curtains, drapes, shutters or blinds may be installed as window covers. No window shall be covered with aluminum foil, newspapers or other material not designed for use as a window cover.

Section 9.13 - Solar Heating. No Owner shall install solar heating panels or replace any existing panels without prior written approval of the Architectural Committee, which shall have the right to approve or disapprove the size, shape, color, materials, and construction.

Section 9.14 - Passage of Light and Air. No Improvements shall be made by any Owner that would unreasonably interfere with the passage of light and air to, or the view from, any other Owner's property.

Section 9.15 - Air Conditioners. Any installation, replacement or modification of the air conditioning system must have the prior written approval of the Architectural Committee.

Section 9.16 - Owner's Responsibility. Each Owner assumes full responsibility and liability for any damage or loss which may be claimed or incurred in connection with the use by such Owner of his Unit, or any Unit, or any Unit Element thereof, or his Exclusive Use Common Area, including without limitation, any damage or loss claimed or incurred as the result of the placement thereon, or therein or the attachment thereto of any planters, pots or other containers or objects. The Balcony, Deck and Stair rails have not been designed to accommodate such use and should not be used for any such purposes.

Section 9.17 - California Vehicle Code. The Local Government shall be allowed to impose and enforce all provisions of the applicable California Vehicle Code sections on any private streets contained within the Covered Property.

Section 9.18 - Leases. Any agreement for the leasing or rental of a Condominium (hereinafter in this Section referred to as a "lease") shall provide that the terms of such lease shall be subject in all respects to the provisions of the Maintenance

Corporation Management Documents and any applicable agreements between the Maintenance Corporation and any of the Federal Agencies. Said lease shall further provide that any failure by the lessee thereunder to comply with the terms of the foregoing documents shall be a default under the lease. All leases shall be in writing. The Owner of said leased or rented Condominium has the duty and obligation to furnish the Board with the name or names of the individuals currently leasing or renting said Condominium and to maintain with the Maintenance Corporation a record of the current mailing address of said Owner. Any Owner who shall lease his Condominium shall be responsible for assuring compliance by such Owner's lessee with the Maintenance Corporation Management Documents. No Condominium shall be leased for transient or hotel purposes, which shall be defined as rental for any period less than thirty (30) days or any rental whatsoever if the occupants of the Condominium are provided customary hotel services such as room service for food and beverage, maid service, furnishing laundry and linen and bellboy service.

Section 9.19 - Transfer of Title Disclosures. An Owner shall, as soon as practicable before transfer of title to a Condominium or execution of a real property sales contract therefor (defined in Section 2985 of the California Civil Code to mean an agreement wherein one party agrees to convey title to real property to another party upon the satisfaction of specified conditions set forth in the contract which does not require conveyance of title within one (1) year from the date of formation of the contract), provide the following to the prospective purchaser:

(a) A copy of the Maintenance Corporation Management Documents;

(b) In the event the Maintenance Corporation Management Documents are amended to contain a restriction limiting the occupancy, residency, or use of a Condominium on the basis of age in a manner different from that provided in California Civil Code Section 51.3 pertaining to senior citizens housing restrictions, a statement that the restriction is only enforceable to the extent permitted by said Section 51.3 and a statement specifying the applicable provisions of said Section 51.3;

(c) A true statement in writing from an authorized representative of the Maintenance Corporation as to the amount of any Assessments levied upon the Owner's Condominium which are unpaid on the date of the statement. The statement shall also include true information on Allowable Charges which, as of the date of the statement, are or may be made a lien upon the Owner's Condominium pursuant to Section 3.15 of Article III of this Declaration.

ARTICLE XDESTRUCTION OF IMPROVEMENTS

Section 10.01 - Definitions. The following terms used in this Article are defined to mean as follows:

(a) "Insured Improvements" shall mean the Improvements on the Covered Property insured under the fire and casualty insurance policy maintained by the Maintenance Corporation and shall consist of Structural Common Area, Residence Improvements and Common Facilities.

(b) "Affected Condominium" shall mean and refer to a Condominium the Unit of which is situated within partially or totally destroyed insured Structural Common Area or contains partially or totally destroyed insured Residence Improvements.

(c) "Affected Common Facility" shall mean the partially or totally destroyed insured Common Facility.

(d) "Acceptable Range of Reconstruction Cost" shall mean that the amount of the insurance proceeds paid for partially or totally destroyed Insured Improvements together with the amount of any deductible amount designated in the fire and casualty insurance policy maintained by the Maintenance Corporation totals at least ninety percent (90%) of the estimated cost to repair, replace or reconstruct such partially or totally destroyed Insured Improvements.

(e) "Substantial Destruction" shall mean a destruction of Insured Improvements representing at least seventy-five percent (75%) of the current replacement cost value of all Insured Improvements upon the Covered Property.

Section 10.02 - Board Action. In the event any Insured Improvements are damaged, the Board shall take the following action:

(a) Acceptable Range of Reconstruction Cost. The Board shall ascertain the cost of repair, replacement or reconstruction by obtaining fixed price bids from at least two (2) reputable contractors, which bids shall include the obligation of the contractor to obtain a performance bond, if the Board deems that such bids are necessary or appropriate. The Board shall further have full authority to negotiate with representatives of the insurer and to make settlement with the insurer for less than full insurance coverage on the damage. Any settlement made by the Board in good faith shall be binding upon all Owners with the exception of the Administrator of Veterans Affairs, an Officer of the United States of America. After the settlement has been approved by the Board, any two (2) directors

of the Maintenance Corporation may sign a loss claim form and release form in connection with the settlement of a loss claim.

(b) Notice of Reconstruction Assessments. The Board shall promptly cause notice to be delivered to all affected Insured Owners if, during the process of determining the Acceptable Range of Reconstruction Cost, it appears likely that the repair, replacement or reconstruction of a partially or totally destroyed Insured Improvement will result in the levying of Reconstruction Assessments against such Owners. Such notice shall specify the estimated amount of any such Reconstruction Assessment.

(c) Vote of Members. The Board shall call a special meeting or shall distribute written ballots to the Insured Owners for action to be taken without a meeting to determine whether not to proceed with the repair, replacement or reconstruction of partially or totally destroyed Insured Improvements upon the happening of any one of the following events:

(i) a Substantial Destruction;

(ii) a determination that the requirements of the Acceptable Range of Reconstruction Cost have not been met;

(iii) receipt of a written request of Insured Owners representing at least five percent (5%) of the total voting power of the Insured Owners requesting such action; or

(iv) failure or inability to make a determination as to the Acceptable Range of Reconstruction Cost within sixty (60) days of the date of the destruction.

Section 10.03 - Reconstruction. The repair, replacement or reconstruction shall commence as soon as practicable following any one of the following events:

(a) a determination that the requirements of the Acceptable Range of Reconstruction Cost have been met, except that if Reconstruction Assessments must be levied, such work shall not commence until ten (10) days have elapsed following the delivery of the notice of the Reconstruction Assessment to all Insured Owners required to pay Reconstruction Assessments. The notice of estimated Reconstruction Assessment required to be delivered to each such Insured Owner as hereinabove provided in this Article shall satisfy this condition if the actual amount of the Reconstruction Assessment does not exceed the estimated amount set forth in the said notice;

(b) approval of such action by not less than thirty-three percent (33%) of the voting power of the Insured Owners; or

(c) failure to receive written approval not to proceed with the repair, replacement or reconstruction of the required percentage of Eligible Mortgage Holders and Owners required under the Article entitled "Mortgagee Protection" of the Declaration within one hundred twenty (120) days of the date of the destruction.

Notwithstanding the foregoing, the Board may delegate its responsibility to repair, replace or reconstruct any damage to Residence Improvements to the Owner of such Residence Improvements if the Board deems that such damage is less than the amount that would require notice to Requesting Mortgagees pursuant to the Article entitled "Mortgagee Protection" of this Declaration. Any such repair, replacement or reconstruction shall be commenced and completed as soon as practicable following such damage.

Section 10.04 - Proceeds of Insurance. All insurance proceeds shall be paid to the Trustee unless the proceeds from a single claim do not exceed Ten Thousand Dollars (\$10,000) in which event such insurance proceeds shall be paid directly to the Maintenance Corporation to be used as provided in this Article. The Trustee shall hold, distribute and expend such proceeds for the benefit of Owners, Mortgagees and others as their respective interests shall appear. In the event any portion of the insurance proceeds were paid to a Mortgagee of a Mortgage encumbering an Affected Condominium, such amount shall be paid to the Board by the Owner of such Affected Condominium. In the case of payment of such proceeds to a mortgagee of a mortgage encumbering an Affected Common Facility, such amount shall be paid in equal amounts by all Insured Owners. In the event any Insured Owner or Owner of an Affected Condominium fails to pay such amount within thirty (30) days of a written demand therefor by the Maintenance Corporation, the Board may levy a Special Assessment against any such Owner and his Condominium for such amount.

Section 10.05 - Reconstruction Assessments. If necessary, the Board shall levy a Reconstruction Assessment against any Insured Owner of Residence Improvements to cover the cost of the repair, replacement or reconstruction of any damage to such Residence Improvements in excess of the insurance proceeds available for such purpose and shall levy Reconstruction Assessments against all Insured Owners at such time and in such amount determined necessary to cover the costs of repair, replacement or reconstruction in excess of insurance proceeds of all other Insured Improvements.

Section 10.06 - Compliance with Plans.

(a) Condominiums. Any reconstruction of a Condominium Building undertaken pursuant to this Article shall substantially

conform to the Condominium Plan, as amended pursuant to this Section, or other provisions of this Declaration, and the original plans and specifications. In determining whether the plans for a reconstructed Condominium Building are in substantial conformance with its Condominium Plan, the Board may take into consideration the availability and expense of the labor and materials in the original construction of such Condominium Building. If such labor or material is not available or is prohibitively expensive at the time of reconstruction, the Board may permit the substitution of other labor or material as it deems proper. In the event the Condominium Plan is amended, such instrument must be executed by all persons or entities whose signatures would be required to record that Condominium Plan pursuant to Section 1351(e) of the California Civil Code. Said persons or entities shall also execute such other document or take such other actions as required to make such amendment effective.

(b) Common Area. Any reconstruction of Common Area undertaken pursuant to this Article shall substantially conform to the original plans and specifications unless other action is approved by a majority of the voting power of the Maintenance Corporation.

Section 10.07 - Abatement of Regular Assessments. If the Board determines that any Residence has become uninhabitable by reason of its total or partial destruction, it may exempt such Owner from the payment of that portion of the Regular Assessment which is for the purpose of defraying expenses and reserves directly attributable to the existence and the use of the uninhabitable Residence. The exemption may include, but shall not be limited to, the portion of such Regular Assessment attributable to refuse disposal and domestic water supplied to the Residence.

Section 10.08 - Certificate of Intention Not to Reconstruct. In the event there has been a decision not to reconstruct pursuant to this Article, the Board shall execute, acknowledge and record in the Official Records not later than one hundred twenty-five (125) days from the date of destruction, a certificate declaring the intention of the Maintenance Corporation not to rebuild. If no such certificate is so filed within said time limitation, it shall be conclusively presumed that the Maintenance Corporation has determined to undertake reconstruction pursuant to this Article.

Section 10.09 - Partition. In the event that a certificate described in the Section entitled "Certificate of Intention Not to Reconstruct" of this Article is recorded within the time period provided therein, the right of any Owner to partition through legal action as described in the Article hereof entitled "Limitations Upon the Right to Partition and Severance" shall forthwith revive.

Section 10.10 - Determination of Allocable Proceeds. The amount of insurance proceeds "allocated" or "allocable" to an Affected Condominium or to an Affected Common Facility shall be determined pursuant to this Section as follows:

(a) In the event the insurance carrier allocates insurance proceeds among Affected Condominiums and Affected Common Facilities, and such allocation is approved by the Board, such allocation shall be final and binding upon the Owners and mortgagees.

(b) In the event the insurance carrier fails to allocate the insurance proceeds, such allocation shall be determined by multiplying the amount of insurance proceeds available for distribution by a fraction, the denominator of which is the total decrease of M.A.I. appraised fair market value of all of the partially or totally destroyed Insured Improvements for which insurance proceeds have been paid by reason of the casualty and the numerator of which is the decrease of M.A.I. appraised fair market value of each such Affected Condominium or Affected Common Facility. The appraised values shall be determined by an M.A.I. appraiser selected by the Trustee. Such allocation shall be final and binding on the Owners, the Mortgagees and the Maintenance Corporation.

Section 10.11 - Distribution of Insurance Proceeds. In the event there has been a decision not to repair, replace or reconstruct any partially or totally destroyed Insured Improvements, the Trustee shall distribute the insurance proceeds allocated to each Affected Condominium and to each Affected Common Facility as follows:

(a) in the case of proceeds allocated to an Affected Condominium, to the Owner of the Affected Condominium subject to the prior rights of all Mortgagees holding Mortgages encumbering such Affected Condominium;

(b) in the case of Affected Common Facilities, to the Board for retention in the general funds of the Maintenance Corporation subject to the prior rights of all mortgagees holding mortgages encumbering the particular Affected Common Facility for which such insurance proceeds have been allocated.

Allocable proceeds paid to mortgagees shall be paid in the order of their recorded priority on the Affected Condominium or such Affected Common Facility as the case may be.

Section 10.12 - Payment of Mortgagees. Any insurance proceeds paid to a mortgagee pursuant to this Article shall be paid in the amount required by such mortgagee, but not to exceed (i) the outstanding indebtedness secured by said mortgage, or (ii) the

insurance proceeds allocated to such Affected Condominium or Affected Common Facility as hereinabove provided in this Article, whichever of (i) or (ii) is the lesser.

Section 10.13 - Requirements of Federal Agencies. In addition to the foregoing, the Board must also comply with the requirements of the Article entitled "Mortgagee Protection" of the Declaration as to notice which must be provided to Requesting Mortgagees, Insurers and Guarantors. Notwithstanding the foregoing Sections of this Article, any partially or totally destroyed Improvements will be repaired, replaced, reconstructed or restored substantially to their condition prior to the destruction unless there has also been compliance with the requirements of the said Article entitled "Mortgagee Protection." The vote or consent of Eligible Mortgage Holders required under said Article may be solicited concurrently or subsequent to the vote of the Insured Owners required under this Article.

ARTICLE XIEMINENT DOMAIN

Section 11.01 - Definition of Taking. The term "taking" as used in this Article shall mean condemnation by eminent domain, or by sale under threat thereof, of all or part of the Covered Property.

Section 11.02 - Representation by Board. In the event of a taking, the Board shall, subject to the right of all Mortgagees who have requested the right to join the Board in the proceedings, represent all of the Owners in an action to recover all awards. No Owner shall challenge the good faith exercise or the discretion of the Board in fulfilling its duties under this Article. The Board is further empowered, subject to the limitations herein, as the sole representative of the Owners in all aspects of condemnation proceedings not specifically covered herein. The award or proceeds shall be payable to the Maintenance Corporation for the use and benefit of the Owners and their Mortgagees as their interest may appear.

Section 11.03 - Award for Certain Common Area. Any awards received on account of the taking of Common Area other than Structural Common Area and Exclusive Use Common Area such as and without limitation, recreational facilities, shall be paid to the Maintenance Corporation and shall be retained in the general funds of the Maintenance Corporation subject to the prior rights of any mortgagee holding an encumbrance upon any such Common Area for which such award has been paid.

Section 11.04 - Award for Condominium. In the event of a taking of property other than that described in the Section entitled "Award for Certain Common Area" of this Article, the Board shall distribute the award forthcoming from the taking authority according to the provisions of this Section after deducting therefrom fees and expenses related to the condemnation proceeding including, without limitation, fees for attorneys and appraisers and court costs. In the event that the taking is by judgment of condemnation and said judgment apportions the award among the Owners and their respective Mortgagees, the Board shall distribute the amount remaining after such deductions among such Owners and Mortgagees on the allocation basis set forth in such judgment. In the event that the taking is by sale under threat of condemnation, or the condemnation award is not apportioned among the affected Owners by court judgment or by agreement between the condemning authority and each of the affected Owners, the Board shall distribute the award among the affected Owners and their respective Mortgagees according to the relative decrease in values of the Residences affected by the condemnation as determined by an M.A.I. appraiser selected by the Board. In no event shall any portion of such award be distributed by the

Board to an Owner and/or the Mortgagees of his Condominium in a total amount greater than the portion allocated hereunder to such Condominium.

Section 11.05 - Inverse Condemnation. The Board is authorized to bring an action in inverse condemnation. In such event, the provisions of this Article shall apply with equal force.

Section 11.06 - Revival of Right to Partition. Upon a taking which renders more than fifty percent (50%) of the Residences in any Condominium Project incapable of being restored to at least ninety-five percent (95%) of their floor area and substantially their condition prior to the taking, the right of any Owner within such Condominium Project to partition through legal action as described in the Article entitled "Limitations Upon the Right to Partition and Severance" of this Declaration shall forthwith revive. The determination as to whether Residences partially taken are capable of being so restored shall be made by the Board, and this decision shall be final and binding on all Owners and Mortgagees.

Section 11.07 - Personal Property and Relocation Allowances. Where all or part of the Covered Property is taken, each Owner shall have the exclusive right to claim all of the award made for his personal property, and any relocation, moving expense, or other allowance of a similar nature designed to facilitate relocation. Notwithstanding the foregoing provisions, the Board shall represent each Owner in an action to recover all awards with respect to such portion, if any, of Owners' personal property which is taken with all or part of the Covered Property as is at the time of any taking, as a matter of law, part of the real estate comprising the Condominium, and shall allocate to such Owner so much of any awards as is attributable in the taking proceedings, or failing such attribution, attributable by the Board to such portion of Owners' personal property.

Section 11.08 - Change of Condominium Interest. In the event of a taking, and notwithstanding the Article entitled "Amendment Provisions" of this Declaration, in the event it is necessary to record an amendment to a Condominium Plan, such instrument must be executed by all persons or entities whose signatures would be required to record that Condominium Plan pursuant to Section 1351(e) of the California Civil Code or any similar statute then in effect and such other documents as required to make such amendment effective.

Section 11.09 - Requirements of Federal Agencies. In addition to the requirements of this Article, the Board and the Owners must also comply with the requirements of the Article entitled "Mortgagee Protection" of this Declaration in the event of any taking.

ARTICLE XIILIMITATIONS UPON THE RIGHT TO PARTITION AND SEVERANCE

Section 12.01 - No Partition. The right of partition is hereby suspended, except that the right to partition shall revive and a Condominium Project may be sold as a whole when the conditions for such action set forth in the Articles of this Declaration entitled "Destruction of Improvements" and "Eminent Domain" have been met; provided, however, notwithstanding the foregoing, any Owner may bring an action for partition by sale of the Condominium Project in which his Condominium is located as provided in Section 1359 of the California Civil Code upon the occurrence of any of the events therein provided. Provided, further, that if any Condominium shall be owned by two (2) or more co-tenants, nothing herein contained shall be deemed to prevent a judicial partition as between such co-tenants.

Section 12.02 - No Severance. The elements of a Condominium and other rights appurtenant to the ownership of a Condominium are inseparable and each Owner agrees that he shall not, while this Declaration or any similar declaration is in effect, make any conveyance of less than the entire Condominium and such appurtenances. Any deed, Mortgage or other conveyance that purports to convey less than all of the interests in a Condominium shall be deemed to transfer and convey the entire Condominium, including the omitted interests even though such omitted interests were not expressly mentioned in such conveyance document. The provisions of this Section shall terminate on the date that judicial partition shall be decreed.

Section 12.03 - Proceeds of Partition Sale.

(a) Whenever an action is brought for the partition by sale of a Condominium Project, whether upon the occurrence of any of the events provided in Section 1359 of the California Civil Code or upon the revival of the right to partition pursuant to the Articles of this Declaration entitled "Destruction of Improvements" or "Eminent Domain," the Owners of Condominiums in such Condominium Project shall share in the proceeds of such sale in the same proportion as their interest in such Condominium Project. As used in the foregoing sentence, such interest of each Owner shall be determined by comparing (i) an independent appraisal of an Owner's Condominium conducted by an M.A.I. appraiser selected by the Board, to (ii) the total of such appraised valuation for all Condominiums in such Condominium Project.

(b) The distribution of the proceeds of any such partition sale shall be adjusted as necessary to reflect any prior distribution of insurance proceeds or condemnation award as may have been made to Owners and their Mortgagees pursuant to the

Articles of this Declaration entitled "Destruction of Improvements" and "Eminent Domain." In the event of any such partition and sale, the liens and provisions of all Mortgages or Assessment liens encumbering Condominiums within the Condominium Project or Projects so encumbered shall extend to each applicable Owner's interest in the proceeds of such partition and sale. The interest of an Owner in such proceeds shall not be distributed to such Owner except upon the prior payment of any Mortgage or Assessment lien encumbering such proceeds as aforesaid.

ARTICLE XIIIANNEXATIONS

Real property may be annexed to and become subject to this Declaration by any of the methods set forth hereinafter in this Article, as follows:

Section 13.01 - Plan of Development. Declarant intends to sequentially develop the Annexation Property on a phased basis; however, Declarant may elect not to develop all or any part of such real property, to annex such real property to this Declaration in increments of any size whatsoever, or to develop more than one such increment at any given time and in any given order. Moreover, Declarant reserves the right to subject all or any portion of the Annexation Property to the plan of this Declaration or one or more separate declarations of covenants, conditions and restrictions which subjects said property to the jurisdiction and powers of a homeowner association or other entity with powers and obligations similar to the Maintenance Corporation and which is not subject to the provisions of this Declaration. Although Declarant shall have the ability to annex the Annexation Property as provided in this Article, Declarant shall not be obligated to annex all or any portion of such property, and such property shall not become subject to this Declaration unless and until a Supplementary Declaration shall have been so executed and recorded.

Section 13.02 - Annexation Without Approval. All or any part of the Annexation Property may be annexed to and become subject to this Declaration and subject to the jurisdiction of the Maintenance Corporation without the approval, assent or vote of the Maintenance Corporation or its Members, provided that:

(a) the annexation shall have occurred within seven (7) years from date of the recordation of this Declaration;

(b) The recordation of the Supplementary Declaration annexing a new Phase is effected prior to the third anniversary of the issuance of the original Final Subdivision Public Report for the immediately preceding Phase; and

(c) The DRE has agreed to issue a Final Subdivision Public Report which shall be deemed to be evidence that Declarant has furnished proof satisfactory to the DRE that: (i) no proposed annexation will result in overburdening of the common interests of the then existing Owners and (ii) no proposed annexation will cause a substantial increase in Assessments against existing Owners which was not disclosed in Final Subdivision Public Reports under which pre-existing Owners purchased their interests.

All Improvements annexed pursuant to this Section shall be consistent with the initial Improvements in terms of quality of construction. Prior to annexation pursuant to this Section, plans for the development of the additional property must be submitted to the VA, and VA must determine that such plans are in accordance with the previously approved general plan and so advise Declarant.

Section 13.03 - Annexation Pursuant to Approval. Upon approval in writing of the Maintenance Corporation, pursuant to the vote or written assent of sixty-seven percent (67%) of the total voting power of Members other than the Declarant, any person who desires to add real property to the plan of this Declaration and to subject such property to the jurisdiction of the Maintenance Corporation, may file or record a Supplementary Declaration. The provisions of this Section shall also apply to the Annexation Property subsequent to the power of Declarant to annex such property without approval of the Members as provided in this Article.

Section 13.04 - Effectuation of Annexation. Upon the satisfaction of all of the conditions contained in this Article, the recordation of a Supplementary Declaration in the Official Records shall constitute and effectuate the annexation of the Annexed Property described therein, making said Annexed Property subject to this Declaration and subject to the functions, powers and jurisdiction of the Maintenance Corporation, and thereafter said Annexed Property shall be part of the Covered Property and all of the Owners of Condominiums in said Annexed Property shall automatically be Members. The Supplementary Declaration shall incorporate by reference all of the covenants, conditions, restrictions, easements and other provisions of this Declaration, and may contain such complementary additions or modifications of the covenants, conditions and restrictions in this Declaration as may be necessary to reflect the different character if any, of the Annexed Property as are not inconsistent with the plan of the Declaration. In no event, however, shall any such Supplementary Declaration revoke, modify or add to the covenants established by this Declaration or by any prior Supplementary Declaration with respect to property covered by this Declaration at the time of the recording of the said Supplementary Declaration.

Section 13.05 - Mergers or Consolidations. Upon a merger or consolidation of the Maintenance Corporation with another association which merger or consolidation must be approved by the vote or written assent of sixty-seven percent (67%) of the total voting power of Members other than the Declarant, the Maintenance Corporation's properties, rights and obligations may, by operation of law, be transferred to the surviving or consolidated association, or, alternatively, the properties, rights and obligations of another association may, by operation of law, be

added to the properties, rights and obligations of the Maintenance Corporation as a surviving corporation pursuant to a merger. The surviving or consolidated association may administer the covenants, conditions and restrictions established by this Declaration within the Covered Property, together with the covenants, conditions and restrictions established upon any other property as one plan.

Section 13.06 - Deannexation. A Phase may be deleted from coverage of this Declaration by the Declarant as long as (i) no Condominium has been conveyed in a transaction that requires the delivery of a Final Subdivision Public Report, (ii) no Maintenance Corporation Property within such Phase has been conveyed to the Maintenance Corporation, and (iii) no Assessments have been levied against any of the Condominiums within such Phase.

ARTICLE XIVMORTGAGEE PROTECTION

Section 14.01 - Priority of Mortgage Lien. No breach of the covenants, conditions or restrictions, nor the enforcement of any lien provisions contained in this Declaration, shall affect, impair, defeat or render invalid the lien or charge of any First Mortgage made in good faith and for value encumbering any Condominium, but all of said covenants, conditions and restrictions shall be binding upon and effective against any Owner whose title is derived through foreclosure or trustee's sale, or otherwise, with respect to a Condominium.

Section 14.02 - Curing Defaults. A Mortgagee, or the immediate transferee of such Mortgagee, who acquires title by judicial foreclosure, deed in lieu of foreclosure or trustee's sale shall not be obligated to cure any breach of the provisions of this Declaration which is noncurable or of a type which is not practical or feasible to cure. The determination of the Board made in good faith as to whether a breach is noncurable or not feasible to cure shall be final and binding on all Mortgagees.

Section 14.03 - Resale. It is intended that any loan to facilitate resale of any Condominium after judicial foreclosure, deed in lieu of foreclosure or trustee's sale is a loan made in good faith and for value and entitled to all of the rights and protections afforded to other Mortgagees.

Section 14.04 - Material Changes. Seventy-five percent (75%) written approval of the total voting power of Eligible Mortgage Holders and sixty-seven percent (67%) of the voting power of the Maintenance Corporation is required to amend a material provision of the Maintenance Corporation Management Documents shown under subsection (a) of this Section, or to take such other actions shown under subsection (b) of this Section.

(a) Material Amendment of Maintenance Corporation Management Documents. A material provision in any of the Maintenance Corporation Management Documents shall be defined as those provisions governing the following subjects:

- (i) Voting rights;
- (ii) Assessments, assessment liens, or subordination of such liens;
- (iii) Reserves for maintenance, repair and replacement of the Common Area;
- (iv) Responsibility for maintenance and repair of the Covered Property;

(v) Reallocation of interests in the Condominium Common Area or Exclusive Use Common Area or rights to their use;

(vi) Boundaries of any Unit;

(vii) Convertibility of Units into Common Area or of Common Area into Units;

(viii) Expansion or contraction of the Covered Property or the addition, annexation or withdrawal of property to or from the Covered Property;

(ix) Insurance or fidelity bonds;

(x) Leasing of Condominiums;

(xi) Imposition of any right of first refusal or similar restriction on the right of an Owner to sell, transfer, or otherwise convey such Owner's Condominium; and

(xii) Any provision, which by its terms, is for the express benefit of Mortgagees, insurers or guarantors.

An amendment or addition shall not be considered material under this Section if it is for the purpose of correcting technical errors, or for clarification only. An Eligible Mortgage Holder who receives a written request to approve additions or amendments which are not considered material who does not deliver or post to the requesting party a negative response within thirty (30) days shall be deemed to have approved such request.

(b) Actions and Decisions.

(i) Effectuate any decision to assume self-management of the Covered Property when professional management had been previously required by an Eligible Mortgage Holder;

(ii) Restoration or repair of the Covered Property (after a hazard damage or partial condemnation) in a manner other than that specified in the Maintenance Corporation Management Documents;

(iii) Termination of the legal status of the Development for any reason, including without limitation, the substantial destruction or condemnation of the Covered Property;

(iv) By any act or omission, abandon, partition, sell, alienate, subdivide, release, transfer, hypothecate or otherwise encumber the Common Area; provided, however, the granting of easements for public utilities or other public

purposes consistent with the intended use of the Common Area shall not require such approval;

(v) Partition or subdivide a Condominium or any elements thereof;

(vi) Change the pro rata interest or obligations of any individual Condominium for purposes of (1) levying Assessments or charges, allocating distributions of insurance proceeds or condemnation awards or (2) determining the pro rata share of ownership in the Condominium Common Area;

(vii) Use hazard insurance proceeds for losses to any property, whether to Units or Common Area, for other than repair, replacement or reconstruction;

(viii) Fail to maintain fire and extended coverage insurance on the Common Area and the Improvements thereto in an amount less than one hundred percent (100%) of the insurable value based on current replacement cost; and

(ix) By act or omission change, waive or abandon any scheme of regulations, or enforcement thereof, pertaining to the architectural design or the exterior appearance of Residences, the exterior maintenance of Residences, the maintenance of the Common Area including, without limitation, the party walks or common fences and driveways, or the upkeep of lawns and plantings.

Section 14.05 - Notice. A Requesting Mortgagee, Insurer or Guarantor shall be entitled to timely written notice of:

(a) Destruction or Taking. Destruction, taking or threatened taking of any Condominium, Common Area and any Improvements thereto or any portion thereof affecting the Mortgage held, insured or guaranteed by such Requesting Mortgagee, Insurer or Guarantor. As used in this Declaration, "damaged" or "taking" shall mean damage to or taking of the Common Area exceeding Ten Thousand Dollars (\$10,000) or damage to or taking of a Residence exceeding One Thousand Dollars (\$1,000). If requested in writing by such Requesting Mortgagee, Insurer or Guarantor, the Maintenance Corporation shall evidence its obligations under this subsection in a written agreement in favor of such Requesting Mortgagee, Insurer or Guarantor;

(b) Default in Performance. Default in the performance of the obligations imposed by this Declaration by the Owner whose Condominium is encumbered by a Mortgage held, insured or guaranteed by such Requesting Mortgagee, Insurer or Guarantor which default remains uncured for a period of sixty (60) days;

(c) Lapse, Cancellation or Modification of Insurance. Any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Maintenance Corporation; and

(d) Action Requiring Consent. Any proposed action which under the Declaration or the Bylaws requires the consent of a specified percentage of the voting power of Eligible Mortgage Holders.

Section 14.06 - Mortgagees Furnishing Information. Mortgagees are hereby authorized to furnish information to the Board concerning the status of any Mortgage.

Section 14.07 - Conflicts. In the event of any conflict between any of the provisions of this Article and any of the other provisions of the Maintenance Corporation Management Documents, the provisions of this Article shall control.

Section 14.08 - Priority of Mortgagee. Nothing in the Maintenance Corporation Management Documents shall give an Owner, or any other party, priority over the rights of a First Mortgagee in the case of a distribution to such Owner of insurance proceeds or condemnation awards for losses to or a taking of any Condominium or Common Area.

Section 14.09 - Payment of Taxes or Premiums. Mortgagees may, jointly or singly, pay taxes or other charges which are in default and which may or have become a charge against the Common Area unless such taxes or charges are separately assessed against the Owners, in which case the rights of Mortgagees shall be governed by the provisions of their Mortgages. Mortgagees may, jointly or singly, also pay overdue premiums on hazard insurance policies, or secure new hazard insurance coverage on the lapse of a policy, for the Common Area. Mortgagees making payments pursuant to this Section shall be owed immediate reimbursement therefor from the Maintenance Corporation. Entitlement to such reimbursement shall be reflected in an agreement in favor of any Mortgagee which requests the same to be executed by the Maintenance Corporation.

ARTICLE XVPROTECTION FROM LIENS

Section 15.01 - Maintenance Corporation to Defend. In the event that a lawsuit is brought against all or substantially all of the Owners within a Condominium Project which will or could result in any lien or encumbrance being levied against an entire Condominium Project, the Maintenance Corporation shall defend such lawsuit and the costs of such defense shall be a Special Assessment against all of the Owners within such Condominium Project joined as defendants in such lawsuit; provided, however, in the event that an insurance carrier is obligated to provide such defense under a policy of insurance carried by the Maintenance Corporation, the Maintenance Corporation shall be relieved of the obligation to provide such defense. Nothing contained herein shall in any way limit the rights of any Owner or Owners to retain counsel of their choice to represent them in such lawsuit at their own expense. In such event, such Owner or Owners shall not be relieved of liability for the Special Assessment provided for in this Section.

Section 15.02 - Liens Against Condominiums. The filing of liens against Condominiums shall comply with California Civil Code Section 1369 and until such section is supplemented or amended to provide otherwise, shall be as provided in this Section. No labor performed or services or materials furnished within a Condominium Project with the consent of, or at the request of, an Owner or such Owner's agent or contractor shall be the basis for the filing of a lien against any other Condominium of any other Owner in such Condominium Project unless that other Owner has expressly consented to or requested the performance of the labor or furnishing of the materials or services. However, express consent shall be deemed to have been given by the Owner of any Condominium in the case of emergency repairs thereto. Labor performed or services or materials furnished for the Common Area, if duly authorized by the Maintenance Corporation, shall be deemed to be performed or furnished with the express consent of each Owner. An Owner may remove his Condominium from a lien against two or more Condominiums or any part thereof by payment to the holder of the lien of the fraction of the total sum secured by the lien which is attributable to such Condominium.

Section 15.03 - Other Liens. In the event that a lien or encumbrance not covered by California Civil Code Section 1369 is attached to all or substantially all of a Condominium Project by reason of a judgment or otherwise, the Maintenance Corporation shall promptly take the appropriate steps to remove such lien, including but not limited to the payment of money and the posting of a bond. The Maintenance Corporation shall have the power to borrow money and to take such other steps as are necessary to free a Condominium Project of such liens. Simultaneously with

any action taken pursuant to this Section, the Maintenance Corporation shall levy a Special Assessment against all of the Owners whose Condominiums were subject to the lien or encumbrance which caused the Maintenance Corporation to act pursuant to said Section equal to each such Owner's pro rata share of such lien or encumbrance. In the event that such Special Assessment is not paid prior to the delinquency date (as defined in the Section entitled "Delinquency" of the Article entitled "Assessments" of this Declaration), the Board may effect the remedies contained in Section 1367 of the California Civil Code and the Article entitled "Assessment" of this Declaration.

Section 15.04 - Reimbursement. In the event that it shall be proven in a court of law of competent jurisdiction over the claim or claims causing the Maintenance Corporation to take action under this Article that a judgment resulting in a lien on all or a portion of the Condominium Project was primarily due to the acts or omissions of a particular Owner or Owners or the families or agents thereof, such Owner or Owners shall reimburse the Maintenance Corporation for all expenses incurred by it pursuant to the provisions of this Article. Upon such reimbursement the Maintenance Corporation shall distribute the funds received to the Owners against whom Special Assessments were levied pursuant to the provisions of this Article.

ARTICLE XVIGENERAL PROVISIONS

Section 16.01 - Enforcement. The Maintenance Corporation or any Owner shall have the right of action against any Owner, and any Owner shall have a right of action against the Maintenance Corporation to enforce by proceedings at law or in equity, all restrictions, conditions, covenants and reservations, now or hereafter imposed by the provisions of the Maintenance Corporation Management Documents or any amendment thereto, including the right to prevent the violation of such restrictions, conditions, covenants, or reservations and the right to recover damages or other dues for such violation except that Owners shall not have any right of enforcement with respect to Assessment liens. With respect to architectural control and Maintenance Corporation Rules, the Maintenance Corporation shall have the exclusive right to the enforcement thereof unless the Maintenance Corporation refuses or is unable to effectuate such enforcement, in which case any Owner shall have the right to undertake such enforcement.

Section 16.02 - No Waiver. Failure by the Maintenance Corporation or by any Owner to enforce any covenant, condition, restriction or reservation contained in any of the Maintenance Corporation Management Documents in any certain instance or on any particular occasion shall not be deemed a waiver of such right on any such future breach of the same or any other covenant, condition, restriction and reservation.

Section 16.03 - Cumulative Remedies. All rights, options and remedies of Declarant, the Maintenance Corporation, the Owners or Mortgagees under the Maintenance Corporation Management Documents are cumulative, and no one of them shall be exclusive of any other, and Declarant, the Maintenance Corporation, the Owners and the Mortgagees shall have the right to pursue any one or all of such rights, options and remedies or any other remedy or relief which may be provided by law, whether or not stated in the Maintenance Corporation Management Documents.

Section 16.04 - Severability. Invalidation of any one or a portion of these covenants, conditions, restrictions or reservations by judgment or court order shall in no way affect any other provisions which shall remain in full force and effect.

Section 16.05 - Term. The covenants, conditions and restrictions of this Declaration shall run with and bind the Covered Property and shall inure to the benefit of and be enforceable by the Maintenance Corporation or any Owner, their respective legal representatives, heirs, successors and assigns, for a term of sixty (60) years from the date this Declaration is recorded, after which time said covenants, conditions and restrictions

shall be automatically extended for successive periods of ten (10) years, unless an instrument, signed by not less than sixty-seven percent (67%) of the then Owners and not less than seventy-five percent (75%) of the Eligible Mortgage Holders has been recorded at least one (1) year prior to the end of any such period, agreeing to terminate said covenants, conditions and restrictions in whole or in part.

Section 16.06 - Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a plan for the development of a residential community or tract and for the maintenance of the Covered Property. The Article and Section headings have been inserted for convenience only, and shall not be considered or referred to in resolving questions of interpretation or construction.

Section 16.07 - Singular Includes Plural. Whenever the context of this Declaration requires the same, the singular shall include the plural and the masculine shall include the feminine and the neuter.

Section 16.08 - Nuisance. The result of every act or omission where any provision, condition, restriction, covenant, easement, or reservation contained in this Declaration is violated in whole or in part, is hereby declared to be and constitutes a nuisance, and every remedy allowed by law or equity against a private nuisance, shall be applicable against every such result, and may be exercised by the Maintenance Corporation or any Owner. Such remedy shall be deemed cumulative and not exclusive.

Section 16.09 - Attorneys' Fees. In the event action is instituted to enforce any of the provisions contained in this Declaration, the party prevailing in such action shall be entitled to recover from the other party thereto reasonable attorneys' fees and costs of such suit as determined by the court or by arbitration as part of the judgment.

Section 16.10 - Notices. Any notice to be given to an Owner, the Maintenance Corporation, an Eligible Mortgage Holder or a Requesting Mortgagee, Insurer or Guarantor under the provisions of this Declaration shall be in writing and shall be deemed to have been properly delivered when directed to such addressee at the address furnished by such addressee for the purpose of notice and placed in the first class United States mail, postage prepaid. Notice to Owners shall also be deemed to have been properly delivered when personally delivered or delivered to a common carrier for personal delivery to the addressee, or delivered to a person giving such notice by electronic means. If no address was furnished by an Owner or the Maintenance Corporation for the purpose of notice, the notice to an Owner may be delivered to the principal office of the Maintenance Corporation and the street address of such Owner's Condominium,

and notice to the Maintenance Corporation may be delivered to the address of its principal place of business. In the case of co-Owners any such notice may be delivered or sent to any one of the co-Owners on behalf of all co-Owners and shall be deemed delivery on all such co-Owners.

The affidavit of an officer or authorized agent of the Maintenance Corporation declaring under penalty of perjury that a notice has been mailed to any Owner or Owners, to any Mortgagee or Mortgagees, to any insurer or guarantor or to all Owners or all Mortgagees, or all insurers or all guarantors to the address or addresses shown on the records of the Maintenance Corporation, shall be deemed conclusive proof of such mailing, whether or not such notices are actually received.

Section 16.11 - Conflicts Between Documents. The terms and provisions set forth in this Declaration are not exclusive, as Owners shall also be subject to the terms and provisions of the other Maintenance Corporation Management Documents. In the event of a conflict between any provisions of any of the Maintenance Corporation Management Documents with the provisions of another Maintenance Corporation Management Document, the order of superiority of such documents shall be (1) Articles, (2) Declaration, (3) Bylaws, (4) Architectural Standards, and (5) Maintenance Corporation Rules and the provisions of any such document shall be superceded by the provisions of the document shown above to be superior to such document to the extent of such conflict.

Section 16.12 - Conflicts Between SAMLARC and Maintenance Corporation Documents. In the event of any conflict between the Articles of Incorporation and Bylaws of SAMLARC, the SAMLARC Declaration and any rules and regulations adopted by the Board of Directors of SAMLARC with the provisions of the Maintenance Corporation Management Documents, the provisions of the Articles of Incorporation and Bylaws of SAMLARC, the SAMLARC Declaration and any rules and regulations adopted by the Board of Directors of SAMLARC shall be deemed to supersede such provisions of the Maintenance Corporation Management Documents to the extent of such conflict.

Section 16.13 - Effect of Declaration. This Declaration is made for the purposes set forth in the Recitals to this Declaration and Declarant makes no warranties or representations, express or implied as to the binding effect or enforceability of all or any portion of this Declaration, or as to the compliance of any of these provisions with public laws, ordinances and regulations applicable thereto.

Section 16.14 - Personal Covenant. To the extent the acceptance or conveyance of a Condominium creates a personal covenant between the Owner of such Condominium and Declarant or other

Owners, such personal covenant shall terminate and be of no further force or effect from or after the date when a person or entity ceases to be an Owner except to the extent this Declaration may provide otherwise with respect to the payment of money to the Maintenance Corporation.

Section 16.15 - Nonliability of Officials. To the fullest extent permitted by law, neither the Board, the Architectural Committee, and other committees of the Maintenance Corporation or any member of such Board or committee shall be liable to any Owner or the Maintenance Corporation for any damage, loss or prejudice suffered or claimed on account of any decision, approval or disapproval of plans or specifications (whether or not defective), course of action, act, omission, error, negligence or the like made in good faith within which such Board, committees or persons reasonably believed to be the scope of their duties.

Section 16.16 - Construction By Declarant. Nothing in this Declaration shall limit the right of Declarant to alter the Units still owned by Declarant or the Common Area, or to construct such additional Improvements as Declarant deems advisable prior to completion of Improvements upon and sale of the entire Development. Such right shall include but shall not be limited to erecting, constructing and maintaining on the Covered Property such structures and displays as may be reasonably necessary for the conduct of the business of completing the work and disposing of the same by sale, lease or otherwise. Declarant shall repair any damage to and complete any restoration of the Covered Property caused or necessitated by such activities of Declarant within a reasonable time after the occurrence of such damage or need for restoration. This Declaration shall not limit the right of Declarant at any time prior to acquisition of title by a purchase from Declarant to establish on the Covered Property additional licenses, reservations and rights-of-way to itself, to utility companies, or to others as may from time to time be reasonably necessary to the proper development and disposal of the Development. Declarant reserves the right to alter its construction plans and designs as it deems appropriate. Declarant shall exercise its rights contained in this provision in such a way as not to unreasonably interfere with the Owners' rights to use and enjoy the Covered Property. Declarant's rights under this Section shall terminate upon the earlier of (i) the expiration of seven (7) years from the date on which this Declaration is recorded, or (ii) the conveyance by Declarant of the last Condominium within the Development, whichever is first to occur; provided, however, that in no event shall Declarant's rights hereunder terminate prior to the exoneration of any Bond in favor of the Maintenance Corporation described in the Article entitled "Enforcement of Bonded Obligations" of this Declaration.

Section 16.17 - Special Rights of Declarant. Any attempt to modify or eliminate any easements or rights reserved to Declarant in the Declaration shall require the prior written approval of Declarant. As long as Declarant is utilizing the easement described in the subsection entitled "Construction and Sales" of the Section entitled "Reservations to Declarant" of the Article entitled "Easements and Rights" of the Declaration, (i) Declarant shall not be subject to any provisions in the Maintenance Corporation Management Documents pertaining to architectural control and use restrictions, and (ii) any amendment to any of the Maintenance Corporation Management Documents shall require the prior written approval of the Declarant.

Section 16.18 - Inapplicability to Government Property. The provisions of this Declaration shall not be applicable to any portion of the Covered Property owned by a governmental entity, authority or agency and held for a public purpose, but shall apply to any Condominium owned by such governmental entity, authority or agency.

Section 16.19 - FHA and/or VA. As long as there is a Class B membership, the approval of FHA and VA is required for the following: Any amendment to this Declaration, a draft of which shall be submitted to and approved by the VA prior to recordation, mergers and consolidations of the Maintenance Corporation with another nonprofit mutual benefit corporation, dedicating or mortgaging the Maintenance Corporation Property, the annexation or de-annexation of any portion of the Annexation Property to this Declaration.

ARTICLE XVIIAMENDMENT PROVISIONS

Section 17.01 - Vote of Maintenance Corporation. Subject to the other provisions of this Declaration, including, without limitation, the rights of Mortgagees, this Declaration may be amended as follows:

(a) Until such time as there is a Class A membership pursuant to this Declaration, cancellations, amendments or modifications shall be effective when executed by Declarant. Any Supplementary Declaration may be amended by Declarant until such time as there has been a conveyance of a condominium within the Annexed Property described in said Supplementary Declaration. Thereafter, any amendments shall require (i) the vote or written assent of not less than seventy-five percent (75%) of the voting power of the Members other than Declarant and shall also require compliance with the provisions of the Declaration contained in the Article entitled "Mortgagee Protection" and the Sections entitled "FHA and/or VA" and "Special Rights of Declarant" of the Article entitled "General Provisions." Such amendment shall not be effective until recorded in the Official Records.

(b) Notwithstanding the foregoing, any provision of the Maintenance Corporation Management Documents which expressly requires the approval of a specified percentage of the voting power of the Maintenance Corporation for action to be taken under said provision can be amended only with the affirmative vote or written assent of not less than the same percentage of the voting power of the Maintenance Corporation.

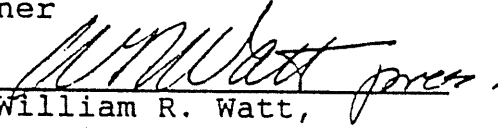
Section 17.02 - Petition to Amend. The Maintenance Corporation or any Owner may petition the superior court of the County for an order reducing the percentage of affirmative votes necessary to amend the Declaration pursuant to Section 1356 of the California Civil Code.

88-263910


IN WITNESS WHEREOF, Declarant has executed this instrument the day and year first hereinabove written.

BAYWOOD HOMES - SANTA MARGARITA, a California General Partnership

By: Baywood Development Group, Inc., a California corporation, General Partner

By: 
William R. Watt,
President

By: Watt Industries, Inc., a California corporation, General Partner

By: 
Vice President

SUBORDINATION

The undersigned, beneficiary under that certain deed of trust encumbering all or a portion of the real property described within as the Initial Covered Property, which deed of trust was recorded on November 30, 1987, as Instrument No. 87-664414 of Official Records of the County, hereby consents to the within Declaration of Covenants, Conditions and Restrictions and hereby subordinates the lien of said deed of trust to the provisions of the Declaration, and any Supplementary Declaration annexing additional property to the Declaration, and any amendment thereto that may be required for the purpose of complying with any law, regulation or any requirement of any of the Federal Agencies.

California First Bank

By: Linda J. Gaines
Vice President

By: Sandra R. Burns
Vice President

STATE OF _____

COUNTY OF _____

)
) Vice President
)
) ss.
)

CAT. NO. NN00737
TO 1945 CA (8-84)
(Corporation)

 **TICOR TITLE INSURANCE**

STATE OF CALIFORNIA
COUNTY OF Orange } ss.

On May 25, 1988 before me, the undersigned, a Notary Public in and for said State, personally appeared Linda J. Gaines

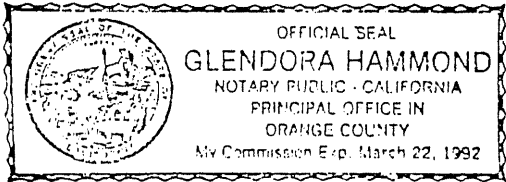
personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the Vice President President, and Sandra R. Burns

Secretary personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the Vice President ~~Secretary~~ of the Corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

WITNESS my hand and official seal.

Signature Glendora Hammond
Glendora Hammond

↑
STAMP HERE
↓



(This area for official notarial seal)

SUBORDINATION

The undersigned, beneficiary under that certain deed of trust encumbering all or a portion of the Covered Property defined in the Declaration which deed of trust was recorded on 11-30-87 as Instrument No. 87-664413 of Official Records of the said County, hereby consents to the Declaration, and subordinates the lien of said deed of trust to the provisions of such Declaration, any amendment thereto that may be required for the purpose of complying with any law, regulation or other requirement of any of the Federal Agencies, and to any Supplementary Declaration annexing additional property to the Declaration.

RANCHO SANTA MARGARITA JOINT VENTURE, a California General Partnership

By: Santa Margarita Realty Company, a California corporation, a General Partner

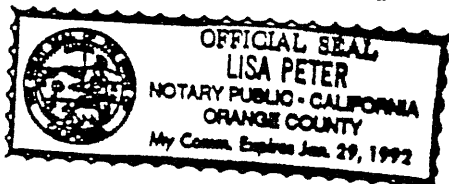
By: [Signature]
Donald E. Moe, Vice President

By: [Signature]
Ronald H. White, Vice President

STATE OF CALIFORNIA)
) ss.
COUNTY OF ORANGE)

On 6-2-88, before me, the undersigned, a Notary Public in and for said State, personally appeared Donald E. Moe and Ronald H. White, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) who executed the within instrument as Vice President and Vice President on behalf of SANTA MARGARITA REALTY COMPANY, the corporation therein named, and acknowledged to me that said corporation executed the within instrument pursuant to its Bylaws or a resolution of its Board of Directors, said corporation being known to me to be one of the partners of RANCHO SANTA MARGARITA JOINT VENTURE, the partnership that executed the within instrument, and acknowledged to me that such corporation executed the same as such partner and that such partnership executed the same.

WITNESS my hand and official seal.



[Signature]
Notary Public in and for said State

GOVERNMENT CODE 27361.7

I CERTIFY UNDER THE PENALTY OF PERJURY THAT THE NOTARY SEAL ON
THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY Lisa PETER

DATE COMMISSION EXPIRES 1-29-92

COUNTY WHERE BOND IS FILED ORANGE

EXECUTED AT SANTA ANA, CALIFORNIA, ON 6-3-88

James Warner
TICOR TITLE INSURANCE COMPANY OF CALIFORNIA.

88-263910

STATE OF CALIFORNIA

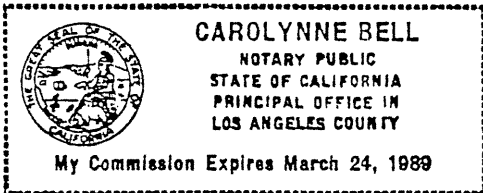
COUNTY OF LOS ANGELES

ss.

On May 24, 1988, before me, the undersigned, a Notary Public in and for said State, personally appeared Theodore E. Cox

personally known to me or proved to me on the basis of satisfactory evidence to be the person(s) who executed the within instrument as, VILE President and _____ Secretary, respectively, on behalf of the corporation therein named that executed the within instrument on behalf of BAYWOOD HOMES-SANTA MARGARITA, the partnership that executed the within instrument, and acknowledged to me that such corporation executed the same as such partner and that such partnership executed the same.

WITNESS my hand and official seal.



Carolynne Bell
 Notary Public in and for said State

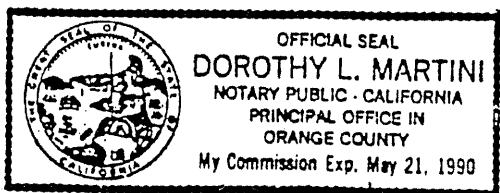
STATE OF CALIFORNIA)
)
COUNTY OF ORANGE) ss.

On MAY 23, 1988, before me, the undersigned, a Notary Public in and for said State, personally appeared WILLIAM R. WATT

personally known to me or proved to me on the basis of satisfactory evidence to be the person(s) who executed the within instrument as, _____ President and N/A Secretary, respectively, on behalf of the corporation therein named that executed the within instrument on behalf of BAYWOOD HOMES-SANTA MARGARITA, the partnership that executed the within instrument, and acknowledged to me that such corporation executed the same as such partner and that such partnership executed the same.

WITNESS my hand and official seal.

Dorothy L. Martini
Notary Public in and for said State



88-260010

EXHIBIT A

LOT PERIMETER WALLS

NONE IN THE INITIAL COVERED PROPERTY.