

ARTICLE 7

COMMUNITY DIRECTORS

7.1 Powers. The Community Board shall have all powers conferred upon the Community Association as set forth herein and in the Declaration and the Community Articles, excepting only those powers expressly reserved to the Members.

7.2 Duties. In addition to those duties of the Community Board required by law, it shall be the duty of the Community Board:

7.2.1 to select, appoint and remove all officers, agents and employees of the Community Association and to prescribe such powers and duties to them as may be consistent with applicable law, the Articles, the Declaration and these Bylaws;

7.2.2 to cause to be kept a complete record of all of its acts and doings and to present a statement thereof to the Delegates, or at any special meeting when such statement is requested in writing by Delegates representing one-fourth (1/4) of the votes other than votes of the Declarant or Merchant Builders; and

7.2.3 to perform all obligations of the Community Association as provided in the Declaration and these Bylaws.

7.2.4 to supervise all officers, agents and employees of the Community Association, and to see that their duties are properly performed.

7.3 Number. Until the first Annual Meeting, the Community Board shall consist of three (3) Community Directors appointed by Declarant. At the first Annual Meeting the number of Community Directors on the Community Board shall be increased to five (5) Community Directors who shall be Members or representatives of Declarant. The Community Board may, upon majority vote, elect to increase the number of directors to seven (7) directors or, if increased, to subsequently decrease the number to five (5) Community Directors.

7.4 Election Committee and Nomination of Community Directors. As provided in the Declaration, an Election Committee may be appointed annually by the Community Board to make rules for and supervise nominations, voting procedures, voting requirements and the orderly and fair election of Community Directors. The Election Committee shall consist of a Chairman, who shall be a member of the Community Board, and two (2) or more persons who shall be Members; provided, however, as long as any Class B memberships are outstanding, the Community Board may appoint persons who are not Members to the Election Committee. Prior to any meeting of the Members at which Community Directors shall be elected, the Election Committee, under reasonable procedures adopted by it, shall collect nominations for the Community Directors to be elected at such meeting. Without limiting the generality of the foregoing, the Election Committee may refuse to accept any person as a candidate unless Delegates representing at least five percent (5%) of the Members, as reasonably determined by

the Community Board, have signed a petition endorsing such person's candidacy. Residency in the Covered Property need not be a requirement for selection as a Community Director; provided, however, that once neither Declarant nor a Merchant Builder owns any interest in or holds a mortgage or deed of trust encumbering any portion of La Costa Oaks Community, the Community Board may, in its discretion, require that Community Directors be selected on the basis of residency in the Covered Property. The notice of the meeting of Delegates at which Community Directors are to be elected shall include a ballot in a form adopted by the Election Committee indicating the candidates that have been accepted for nomination by the Election Committee.

7.5 Election and Term of Office. Until the first Annual Meeting of the Delegates, the Community Board shall consist of those Community Directors who are appointed by Declarant. Thereafter, election to the Community Board shall be by secret ballot. At such election, the Delegates may cast in respect to each vacancy as many votes as they are entitled to cast under the provisions of the Declaration (and subject to cumulative voting as therein described). The candidates receiving the highest number of votes shall be deemed elected. The term of office of the Community Directors shall be three (3) years for so long as there are Class B Members as provided in the Declaration and thereafter the term of office of Community Directors shall be two (2) years, except as provided below. Elections shall be held on a staggered basis as provided for below. At the organizational meeting the Delegates shall elect each of the five (5) Community Directors. The three (3) Community Directors who receive the highest number of votes shall serve for a term of three (3) years and the remaining two (2) Community Directors shall each serve for a term of two (2) years. In the event the Community Board votes to increase the initial number of Community Directors to seven (7), then the additional two (2) Community Directors shall serve for an initial term of two (2) years. For so long as there are Class B Members, upon the expiration of such terms, all successor Community Directors shall be elected to serve two (2) year terms. After the Class B membership has been converted to Class A membership, the first Community Directors being elected to replace Community Directors whose terms have expired shall serve a (1) year term. Upon the expiration of the terms of all Community Directors thereafter, all successor Community Directors shall be elected to serve two (2) year terms. Notwithstanding the foregoing, upon a majority vote, the Community Board may elect to retain three (3) year terms for Community Directors after the expiration of Class B membership, effective at the next annual meeting. Successor Community Directors shall be elected at the next annual meeting corresponding with the expiration of the terms. All Community Directors shall hold office until their respective successors are elected. Elections to the Community Board shall be in accordance with the provisions of the California Nonprofit Mutual benefit Corporation Law.

7.6 Removal. At any special meeting of the Delegates of which notice has been given properly as provided in these Bylaws, the entire Community Board or any individual Community Director may be removed from office as hereinafter set forth, provided that the same notice of said special meeting has also been given to said entire Community Board or any individual Community Director whose removal is to be considered at said special meeting. The entire Community Board or any individual Community Director may be removed from office by a

majority of the affirmative votes cast in the voting on any motion or resolution for removal. However, unless the entire Community Board is removed, an individual Community Director shall not be removed prior to the expiration of such Community Director's term of office if the number of votes cast against the motion or resolution for such Community Director's removal would be sufficient to elect the Community Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Community Directors authorized at the time of the most recent election of the Community Directors were then being elected; provided, however, if a special meeting is called to remove a Community Director elected by Declarant, then until Declarant or any Merchant Builder no longer owns any interest in or holds a mortgage or deed of trust encumbering any portion of the Covered Property, no such Community Director shall be removed without the consent of Declarant. Upon any such motion or resolution for removal, every Delegate may cumulate his or her vote or votes, as the case may be, in the same manner as provided for the election of Community Directors in the Declaration. In addition, Community Directors elected by the Class A Members pursuant to the Declaration may only be removed by the vote or consent as required under the Declaration. In the event that any or all Community Directors are so removed, new Community Directors may be elected at the same meeting.

7.7 Vacancies. Vacancies on the Community Board may be filled by a majority of the Community Directors, though less than a quorum, and each Community Director so elected shall hold office until such Community Director's successor is elected at an annual meeting of Delegates, or at a special meeting of Delegates called for that purpose. A vacancy or vacancies shall be deemed to exist in case of the death, resignation or removal of any Community Director. If the Delegates shall increase the authorized number of Community Directors but shall fail to elect the additional Community Directors as provided for at the meeting at which such increase is authorized, or at an adjournment thereof, or in case the Delegates fail, at any time, to elect the full number of the authorized Community Directors, a vacancy or vacancies shall be deemed to exist. The Delegates may at any time elect Community Directors to fill any vacancy not filled by the Community Directors and may elect the additional Community Directors at the meeting at which an amendment of these Bylaws is voted authorizing an increase in the number of Community Directors.

7.8 Resignation. If any Community Director tenders his or her resignation to the Community Board, the Community Board shall have the power to elect a successor to take office at such time as the resignation shall become effective; provided however, that a director elected by Declarant using its Class C membership will be replaced only by Declarant. No reduction of the number of Community Directors shall have the effect of removing any Community Director from office prior to the expiration of his or her term of office.

7.9 Compensation. No Community Director shall receive any compensation for any service such Community Director may render to the Community Association as a Community Director; provided, however, any Community Director may be reimbursed for actual out-of-pocket expenses incurred by such Community Director in the performance of his or her duties. The Community Board shall also have the right to hire any consultants as may be deemed

necessary by the Community Board, including consultants to assist the Architectural Committee and to compensate such consultants.

7.10 Organizational Meeting of the Community Directors. As soon as reasonably practical, following each annual meeting of the Delegates, the Community Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Notice of such meeting is hereby dispensed with.

7.11 Other Regular Meetings. Other regular meetings of the Community Board shall be held when business warrants such a meeting as determined by the Community Board, but not less than every three (3) months at such place and hour as may be fixed from time to time by resolution of the Community Board. The Community Board shall select a meeting place. Should any such meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday. Notice of the time and place of any such meeting shall be communicated to Community Board members not less than four (4) days prior to the meeting; provided, however, that notice of a meeting need not be given to any Community Board member who has signed a waiver of notice or a written consent to holding of the meeting. Notice shall be given by first class mail, personal delivery or overnight courier, telephone (including a voice message system or other system or technology designed to record and communicate messages), facsimiles, electronic mail or other electronic means to all Community Board members.

7.12 Special Election. As long as a majority of the voting power of the Community Association resides in the Declarant, or as long as there are two outstanding classes of membership in the Community Association, not less than twenty percent (20%) of the Community Directors (the "specially elected Community Directors") shall be elected solely by the votes of Delegates other than Declarant. The election of the specially elected directors shall take place along with the regular election of Community Directors. At such meeting of Delegates, nominations for the specially elected Community Director shall be made from the floor. When nominations have been closed, the special election shall take place. Declarant shall not have the right to participate in or vote in such special election (although Declarant or Declarant's representatives may be present), and the candidates receiving the highest number of votes up to the number of specially elected directors to be elected shall be deemed to be the specially elected Community Directors, and their term shall be the same as that of any other Community Director. Unless Delegates (excluding Declarant) holding a majority of all voting rights (excluding any voting rights held by Declarant) assent by vote or written consent, such specially elected Community Directors cannot be removed. In case of the death, resignation, or removal of a specially elected Community Director, the provisions set forth in this Section respecting the election of a specially elected Community Director shall apply as to the election of a successor. Except as provided in these Bylaws, the provisions of these Bylaws and of the Articles and the Declaration applicable to Community Directors, including their election and removal, shall apply to a specially elected Community Director.

7.13 Emergency Meetings. An emergency meeting of the Community Board may be called by the President of the Community Association, or by any two (2) members of the Community Board other than the President, if there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Community Board, and which of necessity make it impracticable to provide notice to Members as required in Section 7.18 of these Bylaws.

7.14 Presiding Officer. The president of the Community Association shall be the chairman of the Community Board and shall preside at all meetings of the Community Board.

7.15 Waiver of Notice. The transaction of any business at any meeting of the Community Board, however called and noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the Community Directors not present signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the records of the Community Association or made a part of the minutes of the meeting.

7.16 Quorum. A majority of the total number of Community Directors shall constitute a quorum for the transaction of business at a meeting of the Community Board. Every act or decision done or made by a majority of the Community Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Community Board. Community Directors may participate in a meeting through use of a conference telephone or similar communications equipment, so long as all Community Directors participating in such meeting can hear one another. Participation in a meeting pursuant to this Section constitutes presence in person at such meeting.

7.17 Adjournment. A quorum of the Community Directors may adjourn any Community Board meeting to meet again at a stated day and hour; provided, however, that in the absence of a quorum, a majority of the Community Directors present at any Community Board meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Community Board.

7.18 Notice of Community Board Meetings to Members; Participation by Members; Executive Sessions. The secretary shall post a notice of the time and place of all regular and special Community Board meetings in a conspicuous place within the Community Common Area, or by mail, electronic mail or other electronic means, or delivery of the notice to each Residential Lot, or by newsletter or similar means of communication, except for an emergency meeting described in Section 7.13 above, not less than four (4) days prior to the scheduled time of the meeting. Regular and special meetings of the Community Board (excluding any meetings while the Community Board is in executive session) shall be open to all Members of the Community Association; provided, however, that Members who are not on the Community Board shall be permitted to speak at Community Board meetings subject to such reasonable time limits as may be set by the Community Board. In addition, if the nature of the business is first

announced in open session, the Community Board may vote to adjourn and reconvene in executive session out of the presence of the Members to discuss and vote upon litigation matters, matters that relate to the formation of contracts with third parties, personnel matters, and orders of business of a similar or otherwise sensitive nature. In any matter relating to the discipline of a Member, or the Member's payment of assessments, as specified in California Civil Code Sections 1367 and 1367.1, the Community Board shall meet in executive session with respect to such matter if requested by that Member, and the Member shall be entitled to attend the executive session. Any matter discussed in executive session shall be generally noted in the minutes of the Community Board.

7.19 Community Board Minutes. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes of any meeting of the Community Board, other than an executive session, shall be available to Members within thirty (30) days of the applicable meeting of the Community Board. The minutes, proposed minutes, or summary of the minutes shall be distributed to any Member upon request and upon reimbursement of the Community Association's cost for making that distribution. Further, the Members shall be notified in writing at the time that the pro-forma operating budget of the Community Association set forth in Section 11.2.1 of these Bylaws is distributed, or at the time of any general mailing to the entire membership of the Community Association, of their right to have copies of the minutes of meetings of the Community Board, and how and when those minutes may be obtained. As used in this Section, "meeting" includes any congregation of the majority of the members of the Community Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Community Board, except those matters that may be discussed in executive session.

7.20 Action Taken Without a Meeting. Notwithstanding anything to the contrary contained in these Bylaws, the Community Directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written consent of all the Community Directors. Such written consent shall be filed with the minutes of the proceedings of the Community Board. Any action so approved shall have the same effect as though taken at a meeting of the Community Board. An explanation of any action taken shall be posted at a prominent place within the Community Common Area within three (3) days after the written consents of all Community Directors have been obtained.

7.21 Absentee Ballots. The Community Board may make such provisions as it may consider necessary or desirable for absentee ballots.

7.22 Committees. Subject to any contrary provisions of the Declaration and these Bylaws, if any, the Community Board may appoint a nominating committee as provided in this Article. In addition, the Community Board may appoint such other committees as it deems appropriate in order to carry out its purpose.

7.23 Administration of Community Association's Civil Claims. Subject to any contrary provisions of the Declaration and these Bylaws, if any, the Community Board may

institute, defend, settle or intervene on behalf of the Community Association in litigation, arbitration, mediation or administrative proceedings in matters pertaining to (a) enforcement of the Community Governing Documents, or (b) damage to the Community Association Property; provided, however that no representative of Declarant on the Community Board shall vote on the initiation of any claim under California Civil Code Section 895 et seq., such that, from and after the date which is the earlier to occur of (a) the date Declarant advises that it has relinquished control of the Association or (b) the date which is five (5) years after the date of the first conveyance of a Residential Lot to an Owner under a Public Report, Declarant shall have no control over the Community Association's ability to decide whether to initiate a claim under such statutory provisions and in the event of such a vote, the affirmative vote of the two non-Declarant representatives on the Community Board shall be binding so long as a quorum of the Community Board is present at any meeting where such vote is taken.

ARTICLE 8

OFFICERS

8.1 Enumeration of Officers. The officers of the Community Association shall be a president and vice president, both of whom shall at all times be Community Directors, a chief financial officer and a secretary and such other officers as the Community Board may create from time to time by resolution. Officers other than the president and vice president may, but need not, be Community Directors.

8.2 Appointment; Term. The appointment of officers shall take place at the organizational meeting of the Community Board and thereafter at each meeting of the Community Board following each annual meeting of the Delegates. The officers of the Community Association, except such officers as may be elected in accordance with Sections 8.3 and 8.4 below, shall be appointed annually by the Community Board and each shall hold office for one (1) year unless such officer shall sooner resign, or shall be removed, or shall otherwise be or become disqualified to serve.

8.3 Special Appointments. The Community Board may appoint such other officers as the affairs of the Community Association may require, each of whom shall hold office for such period, have such authority and perform such duties as the Community Board may, from time to time, determine.

8.4 Delegation. The Community Directors and officers have the power to delegate any duties within this Article to third parties, such as the Management Company.

8.5 Resignation and Removal. Any officer may be removed from office with or without cause by the vote of a majority of all Community Directors then in office at any regular or special meeting of the Community Board at which a quorum is present. Any officer may resign at any time by giving written notice to the Community Board, the president or the secretary. Such resignation shall take effect on the date of receipt of such notice or at any later