EXHIBIT "D"

ASSOCIATION DOCUMENTS

1) Declaration of Covenants, Conditions and Restrictions Beach House Inn Condominiums
2) Condominium Plan
3) Articles of Incorporation for Beach House Inn Association
4) Bylaws for Beach House Inn Association
5) Budget for Beach House Inn Association

JULIE RODEWALD
San Luis Obispo County – Clerk/Recorder
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DECLARATION

OF

COVENANTS, CONDITIONS AND RESTRICTIONS

FOR

BEACH HOUSE INN CONDOMINIUMS

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DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
FOR
BEACH HOUSE INN CONDOMINIUMS

This Declaration of Covenants, Conditions and Restrictions for the Beach House Inn Condominiums is made by Pismo Beach Properties Club, LLC, a California limited liability company (the "Declarant").

RECITALS

A. The Declarant is the owner of that certain real property located in the City of Pismo Beach, County of San Luis Obispo, State of California that is more particularly described in Exhibit "A." That real property is commonly known as The Beach House Inn and has been subdivided on a Condominium Plan into fifteen (15) Condominium Units, fourteen (14) of which are deed restricted vacation condominium units (the "Vacation Rental Units"). At times in this Declaration The Beach House Inn is referred to by that name and at other times, depending on the context, the development is simply referred to as the "Project."

B. Pursuant to this Declaration and the Condominium Plan, the Declarant intends to establish a condominium project under the provisions of the Davis-Stirling Common Interest Development Act (California Civil Code, Section 1350 et. seq.) consisting of undivided interests the Common Area, as defined herein, coupled with separate interests in spaces within the Project building that are designated as Units, all as more particularly described and shown on the Condominium Plan.

C. The ownership interests of Owners in the Condominium Units shall be subject to and impressed with certain protective covenants, conditions, restrictions, easements, reservations and charges as set forth in this Declaration.

D. Each Condominium Unit shall have appurtenant to it a membership in Beach House Inn Association, a California nonprofit mutual benefit corporation (the "Association").

E. The Building and the land comprising the Project are and shall be held, conveyed, hypothecated, encumbered, leased, rented, used and occupied subject to the following easements, restrictions, covenants, conditions, liens and charges which are in furtherance of a plan of condominium ownership as described in California Civil Code section 1351(e) and section 1351(f), for the subdivision, improvement, protection, maintenance and sale of Condominiums within the Project, all of which are declared and agreed to be for the purpose of enhancing, maintaining and protecting the value and attractiveness of the Project and of the individual Condominium Units located therein. All of the limitations, restrictions, easements, covenants, conditions, liens and charges set forth in this Declaration shall run with the land, shall be binding on and shall inure to the benefit of all parties having or acquiring any right, title or interest in the

Project or any part thereof, and shall be binding on and inure to the benefit of their respective heirs, successors, and assigns. It is the express intent of the Declarant that this Declaration satisfy the requirements of California Civil Code sections 1350 through 1372, as those sections apply to Condominium projects.

ARTICLE I
DEFINITIONS

Section 1.01. "Articles" means the Articles of Incorporation of the Association, which are filed in the Office of the Secretary of State of California, as such Articles may be amended from time to time.

Section 1.02. "Assessment" means any Regular, Special, Special Individual or Emergency Assessment made or assessed by the Association against an Owner and the Owner's Condominium in accordance with the provisions of Article IV, below.

Section 1.03. "Association" means and refers to Beach House Inn Association, a California nonprofit mutual benefit corporation its successors and assigns. The Association is an "association" as defined in California Civil Code section 1351(a).

Section 1.04. "Association Rules" means the rules and regulations adopted by the Board of Directors of the Association pursuant to Section 3.08, below, as the same may be in effect from time to time.

Section 1.05. "Board of Directors" or "Board" means the Board of Directors of the Association.

Section 1.06. "Building" means and refers to the building located at 198 Main Street, Pismo Beach, California, which, along with the Property at that site and the Units located in the Building comprise the Beach House Inn Condominium Project.

Section 1.07. "Bylaws" means the Bylaws of the Association as such Bylaws may be amended from time to time.

Section 1.08. "City" means the incorporated municipal City of Pismo Beach, in the County of San Luis Obispo, State of California, and its various departments, divisions, employees and representatives.

Section 1.09. "Common Area" means the entire Project other than the Units, as defined herein or as shown on the Condominium Plan. Portions of the Common Area are set aside and allocated for the exclusive use and enjoyment of the Units which are adjacent to such Common Area, all as more particularly designated on the Condominium Plan. Such Common Areas shall be referred to herein as "Exclusive Use Common Areas."

Section 1.10. "Common Expense" means any use of Common Funds authorized by Article IV, below, and Article IX of the Bylaws and includes, without limitation: (a) all

expenses or charges incurred by or on behalf of the Association for the management, maintenance, administration, insurance, operation, repairs, additions, alterations or reconstruction of the Project as incurred or as may be estimated from time to time by the Association's Board of Directors; (b) any amounts reasonably required to be set aside as reserves for maintenance, repair and replacement of the Common Areas, Common Facilities, and for nonpayment of any Assessments by defaulting Owners; (c) utility services for the Units that are not sub-metered (including the expense of gas fireplaces, water heaters, and laundry clothes dryers), (d) any other expenses incurred in the normal operation of the Association and the operation and maintenance of the Units, the Common Areas, and appurtenant Exclusive Use Common Areas that cannot be attributed to a particular Owner or guest and recovered as a Personal Charge.

Section 1.11. "Common Facilities" refers to the elevators, fire suppression system, and to the trees, hedges, plantings, lawns, shrubs, landscaping, fences, utilities, berms, pipes, lines, lighting fixtures, structures, master antenna system and other facilities constructed or installed, to be constructed or installed, or currently located on or within any portion of the Common Area.

Section 1.12. "Common Funds" means all funds collected or received by the Association: (a) for use in the maintenance, management, administration, insurance, operation, replacement, repair, addition to, alteration or reconstruction of all or any portion of the Common Area and Common Facilities; and (b) for use in discharging any and all of the Association's duties as provided in the Governing Documents.

Section 1.13. "Condominium" means an estate in real property as defined in California Civil Code section 783 and section 1351(f), consisting of an undivided interest as a tenant-in-common in a portion of the Common Area, as described in the Condominium Plan, together with a separate interest in a space designated as a Unit and described in the Condominium Plan. Owners of Units in the Project shall have equal undivided interest in the Common Area of the Project.

Section 1.14. "Conditions of Approval" means and refers to the City of Pismo Beach Planning Commission Resolution No. PC-R-2011-011, Approving Project No. P10-000111, Conditional Use Permit and Major Modification of Project No. 10-0040, 198 Main Street, APN No. 005-181-044.

Section 1.15. "Condominium Plan" means the Project's condominium plan as shown and depicted on the Vesting Tentative Tract Map No. 3028 198 Main Street recorded in the Official Records of San Luis Obispo County pursuant to California Civil Code section 1351(e).

Section 1.16. "County" means the County of San Luis Obispo, State of California, and its various departments, divisions, employees and representatives.

Section 1.17. "Declarant" refers to Pismo Beach Properties Club, LLC, a California limited liability company, its successors and assigns, if such successors and assigns acquire or hold record title to any portion of the Project for development purposes and the successor is designated as being at "Successor Declarant" in a recorded instrument that is singed and acknowledged by the current Declarant..

Section 1.18. "Declaration" means this instrument as it may be amended from time to time.

Section 1.19. "Emergency Assessment" means and refers to an Assessment imposed by the Association to respond to an emergency situation in accordance with Section 4.05, below.

Section 1.20. "Exclusive Use Common Area" shall mean those portions of the Common Area (including, without limitation, shutters, awnings, door steps, stoops, porches, enclosed patio areas, balconies, exterior doors, door frames and hardware incidental thereto, screens, windows, carports and air conditioning units those portions of the Common Area described in Section 2.05, below) which are set aside and allocated for the exclusive use of one or more, but fewer than all of the Owners and which is appurtenant to the Units owned by said Owners, all as more particularly designated on the Condominium Plan. Every Unit in the Project has a private balcony that faces the Pacific Ocean. Those balconies are Exclusive Use Common Areas that are appurtenant to the adjacent Unit. On the second floor of the Building there is an employee's break room and restroom that are Exclusive Use Common Area appurtenant to Unit 15. On the third floor of the Building there are two laundry rooms, one with coin operated machines and the other with commercial grade machines. The space with the commercial grade machines is also Exclusive Use Common Area appurtenant to Unit 15.

Section 1.21. "Family" means one or more persons each related to the other by blood, marriage or legal adoption, or one or more natural persons not all so related, but maintain a common household in a Condominium Unit.

Section 1.22. "Governing Documents" refers collectively to this Declaration, the Condominium Plan, the Articles and the Bylaws of the Association and the Association Rules.

Section 1.23. "Maintenance Periods" means with respect to each Vacation Rental Unit: (a) the periods of time between Check-In Time and Check-Out Time, and (b) the period(s) of time, outside of those described in clause (a), during which any maintenance or repair thereof or of the furnishings in a particular Vacation Rental Unit is requested by the occupant of the Vacation Rental Unit or is reasonably necessary to be performed by or on behalf of the Association. In the event the Board determines that major annual or other periodic maintenance of a Residence is necessary, the period designated by the Board shall be a Maintenance Period, and thereafter shall not be a Use Period available to an Owner; provided, however, that the Board shall use reasonable efforts to ensure that all Maintenance Periods are during off-season times and are equally divided among all Vacation Rental Units, and that reasonable advance notice of any such Maintenance Period is given to the Owners of the affected Vacation Rental Unit(s).

Section 1.24. "Majority of a Quorum" means the vote of a majority of the votes cast at a meeting or by written ballot when the number of Members attending the meeting in person or by proxy or casting written ballots within the prescribed balloting period equals or exceeds the quorum requirement for Member action, as specified in the Bylaws or otherwise by statute.

Section 1.25. "Manager" shall mean the person employed by the Association pursuant to and limited by the provision of this Declaration, and delegated the duties, power or functions of

the Association as stated in this Declaration, the Bylaws and the terms of any management agreement between the Association and the Manager.

Section 1.26. "Member" means every person or entity who holds a membership in the Association and whose rights as a Member are not suspended pursuant to Section 14.05, below.

Section 1.27. "Mortgage" means any security device encumbering all or any portion of the Project, including any deed of trust. "Mortgagee" shall refer to a beneficiary under a deed of trust as well as to a mortgagee in the conventional sense.

Section 1.28. "Owner" means any person, firm, corporation or other entity (including contract sellers, but excluding any person or entity holding such interest merely as security for the payment of a debt or the performance of an obligation) which holds a fee simple interest in any Condominium and includes (except when the context otherwise requires) the Family, guests, tenants and invitees of such Owner. The term "Owner" shall also include the Declarant for so long as the Declarant owns any Unit within the Project.

Section 1.29. "Personal Charges" means (a) any expense resulting from the act or omission of any Owner of a Vacation Rental Unit or his Permitted User, including, without limitation, (i) the cost of long distance telephone charges or telephone message unit charges and other special services or supplies attributable to the occupancy of that Owner's Vacation Rental Unit during that Owner's Use Period or the occupancy of a Vacation Rental Unit by that Owner's Permitted Users; (ii) the expense of additional housekeeping services, over and above those housekeeping service expenses that are included as a Basic Expense (as such additional housekeeping services are described in the Association Rules), if requested by such Owner or his or her Permitted User during such Owner's Use Period; (iii) the cost to repair any damage to any portion of the Private Residence Club Project or to repair or replace any furnishings or fixtures in a Vacation Rental Unit on account of loss or damage caused by the Unit's Owner or his or her Permitted User; or (iv) the cost to satisfy any expense to any other Owner(s) or to the Association due to any intentional or negligent act or omission of that Owner or his or her Permitted User, or resulting from the breach by that Owner or his or her Permitted User of any provisions of the Governing Documents, and (b) any transient occupancy tax levied pursuant to the laws of the State of California and payable by any Owner of a Vacation Rental Unit which the Association is or shall be required or entitled to collect on behalf of the levying authority.

Section 1.30. "Project" means and refers to the condominium project that is created by the Condominium Plan for the Units, the Common Areas, and the other improvements that are now located or hereafter constructed on the Property. The Project is a statutory "condominium project" as defined in California Civil Code section 1351(f).

Section 1.31. "Property" means and refers to the real property that is more particularly described in Recital "A", above, on which the Condominium Project is located.

Section 1.32. "Record" means, with respect to any document, the recordation or filing of such document in the Office of the County Recorder.

Section 1.33. "Regular Assessment" means an Assessment levied against an Owner and his or her Condominium in accordance with Section 4.02, below.

Section 1.34. "Residential Unit" means and refers to the Condominium Unit located on the third floor of the Project building and which is referenced on the Condominium Plan as "Residential A."

Section 1.35. "Special Assessment" means an Assessment levied against an Owner and his or her Condominium in accordance with Section 4.03, below.

Section 1.36. "Special Individual Assessment" means an Assessment levied against an Owner and his or her Condominium in accordance with Section 4.04, below.

Section 1.37. "Unit" means the elements of each Condominium that are not owned in common with the other Owners. Each such Unit shall be a separate estate consisting of the space bounded by and contained within the unfinished interior surfaces of the perimeter walls, floors, ceilings, windows and doors of each Unit. Accordingly, the boundaries of each Unit begin at the gypsum finishing, plaster, paint, wallpaper or paneling on the perimeter walls and ceilings of the Unit and with any vinyl, hardwood or carpet finishing, if any, on the floors of the Unit. The respective elements and the boundaries of each Unit are more particularly described in the Condominium Plan. In interpreting deeds and plans, the existing physical boundaries of a Unit, or of a Unit reconstructed in substantial accordance with the original plans, shall be conclusively presumed to be the Unit's boundaries rather than the description expressed in the deed or plans, regardless of minor variances between the boundaries as shown on the plans or the deed and those of the building containing the Unit and regardless of settling or lateral movement of the building. The term "Unit" does not include those areas of the Project that are defined herein as Common Area or Common Facilities.

Whenever reference is made to a "Unit," whether in this Declaration, the Condominium Plan, any deed or elsewhere, it shall be assumed that such reference is made to the Unit as a whole, including each of its component elements (including the airspace so encompassed), and to any and all Exclusive Use Common Areas, if any, appurtenant to the Unit.

Section 1.38. "Use Period" means the time period(s) during which an Owner of a Vacation Rental Unit has reserved the use and occupancy of the Owner's Unit in accordance with the provisions of this Declaration (see particularly Section 2.03, below) and the Association Rules.

Section 1.39. "Vacation Rental Unit" or "Vacation Rental Units" means and refers to Units 1 though 14 as shown on the Condominium Plan.

ARTICLE II
DECLARATION AND PROPERTY RIGHTS

Section 2.01. Ownership of Condominium; Easements. The interest of every Owner of a Condominium within the Project shall include a Unit, an equal undivided interest in the Common Area of the Project which shall be appurtenant to such, a membership in the Association, and any exclusive or nonexclusive easements appurtenant to such Unit over the Common Area as described in this Declaration or the Condominium Plan. The common interest

portion of a Condominium appurtenant to each Unit is declared to be permanent in character and cannot be altered without the consent of all Owners and the first Mortgagees of such Owners as expressed in a duly adopted amendment to this Declaration. For so long as the prohibition against severability of the component interests of a Condominium is in effect pursuant to Article XII, below, the common interest portion of a Condominium cannot be separated from the Unit to which it is appurtenant.

Section 2.02. Owners' Nonexclusive Easements of Enjoyment. Every Owner of a Condominium shall have a nonexclusive right and easement of enjoyment in and to the Common Areas of the Project, including ingress and egress to and from the Owner's Unit. However, such nonexclusive easements shall be subordinate to, and shall not interfere with, Exclusive Use Common Areas that are appurtenant to particular Condominiums. Each such nonexclusive easement shall be appurtenant to and shall pass with the title to every Condominium, subject to the following provisions:

(a) Subject to the rights of the Owner of Unit 15 to the exclusive use of two parking spaces, as shown on the Condominium Plan, the right of the Association to control the use of the parking spaces located on the first floor of the Project building (See Section 7.15, below).

(b) The right of the Association and the unit rental manager to restrict and to regulate access by Owners, tenants, and guests to the Project's office, storage and employee restroom areas as shown on the Condominium Plan and to restrict access altogether by Owners, tenants and guests to the equipment and electrical rooms that are shown on the Condominium Plan.

(c) The right of the Association to adopt rules and regulations as provided in Section 3.08, below, (the "Association Rules") and, in the event of a breach of the Association Rules or of any other Governing Document provision, to initiate disciplinary action against the violating Owner or tenant in accordance with Section 13.06, below. Such action may include the levying of fines and/or the temporary suspension of an Owner's voting rights and/or the right of an Owner and the Owner's tenants and guests to use any recreational Common Facilities.

(d) The right of the Association, in accordance with its Articles and Bylaws, to borrow money for the purpose of improving the Common Area and Common Facilities of the Project.

Section 2.03. Delegation of Use.

(a) Units 1 Through 14. Units 1 through 14 (the "Vacation Rental Units"), as shown on the Condominium Plan shall be utilized predominately as transient rentals that are to be managed either by an on-site rental office or other property management company approved by the City of Pismo Beach; Owner management of any Vacation Rental Unit is prohibited. All fourteen (14) Vacation Rental Units must be rented through the same management company (see also Section 3.07(b), below). Initially that Unit manager shall be selected by the Declarant, and then approved by a simple majority vote of the Association's Members who own the Vacation Rental Units (i.e., at least eight of those Members). The following additional restrictions are applicable to Vacation Rental Units and reflect Conditions of Approval for the Condominium Project:

(i) Individual Owners of Vacation Rental Units shall not discourage the rental of their Units or create disincentives that are meant to discourage the rental of their Units.

(ii) All Vacation Rental Units shall be rented at similar rates to that charged by the approved property management entity for units of a similar class and amenity level in the City of Pismo Beach.

(iii) The Vacation Rental Units, while being utilized as vacation rentals, must be limited to occupancy periods that do not exceed twenty-nine (29) days.

(iv) The Vacation Rental Units, while being utilized as vacation rentals, must pay transient occupancy tax to the City of Pismo Beach consistent with the requirements of Chapter 3.20 (Transient Occupancy Tax) of the City of Pismo Beach Municipal Code.

(v) Regardless of the number of persons or entities that are fee simple owners of a Vacation Rental Unit, no Owner or group of co-Owners may use the Vacation Rental Unit for more than ninety (90) days in any calendar year and no individual stay by an Owner or any of several co-Owners may exceed twenty-nine (29) consecutive days. Between the Saturday of the Memorial Day weekend through the Monday of the Labor Day weekend, the occupancy of the Vacation Rental Units by Owner(s) shall be restricted to twenty-eight (28) days with no single stay exceeding fourteen (14) consecutive days. Whenever the Vacation Rental Unit is not occupied by one of its Owners, the Unit shall be made available for transient rental through the property management company.

(vi) The use period limitation on personal use by the Owner(s) of Vacation Rental Units shall be unaffected by multiple Owners or by the sale of a Vacation Rental Unit to a new Owner(s) during the calendar year.

(vii) No portion of any Vacation Rental Unit shall be converted to full-time occupancy condominiums or any other type of residential use.

(viii) Each Owner of any of the Vacation Rental Units shall be jointly and severally liable with the property management company for any violations of the terms and conditions of the Project's Coastal Development Permit and tentative map approval with respect to the use of that Owner's Unit.

(b) Use of Residential Unit No. 15. Condominium Unit No. 15 on the third floor of the Project building (the "Residential Unit") is not deed restricted as a Vacation Rental Unit and is therefore no subject to the restrictions set forth in subparagraph (a), above. The Owner of the Residential Unit may delegate his or her rights to use and enjoy the Common Area and Common Facilities of the Project to his or her family members or tenants, lessees or contract purchasers who reside in the Residential Unit; provided, however, that any rental or lease may only be to a single family for single family residential use. Furthermore, any rental or lease of the Residential Unit shall be subject to the provisions of the Governing Documents all of which shall be deemed incorporated by reference in any lease or rental agreement for the Unit.

Section 2.04. Obligations of Owners. Owners of Condominium Units within the Project shall be subject to the following:

(a) Notification to Prospective Purchasers Regarding Governing Documents.

(i) As more particularly provided in California Civil Code section 1368, as soon as practicable before transfer of title or the execution of a real property sales contract with respect to any Condominium, the Owner thereof must give the prospective purchaser the following documents and information:

(A) a copy of the Governing Documents, including any Operating Rules and a copy of the Association's Articles of Incorporation or, if the Association is not incorporated, a statement from an authorized representative of the Association that the Association is not incorporated;

(B) a copy of the most recent documents distributed by the Association pursuant to California Civil Code section 1365 (see Article XII of the Bylaws);

(C) a true statement ("delinquency statement") in writing from an authorized representative of the Association as to: (1) the amount of the Association's current regular and special assessments and fees; (2) the amount of any assessments levied upon the Owner's Condominium that remain unpaid as of the date of the delinquency statement and any monetary fines or penalties levied upon the Owner's Condominium an unpaid as of the date of the delinquency statement. The delinquency statement shall also include true information on late charges, interest, and costs of collection that, as of the date of the delinquency statement, are or may become a lien against the Owner's Condominium pursuant to Civil Code sections 1367 and 1367.1;

(D) a copy or a summary of any notice previously sent to the Owner pursuant to Civil Code section 1363(h), that sets forth any alleged violations of the Governing Documents that remain unresolved at the time of the request;

(E) a statement disclosing any change in the Association's current Regular and Special Assessments and fees which have been approved by the Board but have not become due and payable as of the date the information is provided;

(F) if requested by the prospective purchaser, a copy of the minutes of the meetings of the Association's Board of Directors (other than executive session minutes) that were conducted over the previous twelve (12) months and approved by the Board.

(ii) Within ten (10) days of the mailing or delivery of a request for the information described in subparagraph (c)(i), above, the Association shall provide the Owner with copies of the requested items. The items required to be made available pursuant to this subparagraph (c) may be maintained in electronic form and the requesting parties shall have the option of receiving them by electronic transmission or in machine readable storage media if the Association maintains the requested items in electronic form and may be posted on the Association's Internet Website.. The Association may charge a reasonable fee for this service based upon the Association's actual cost to procure, prepare, and reproduce the requested items. Upon receipt of a written request, the Association shall provide, on the form prescribed by Civil Code section 1368.2, a written or electronic estimate of the fees that will be assessed for

providing the requested information. No additional fees may be charged by the Association for the electronic delivery of requested documents.

(iii) Fees for documents required to be provided by Civil Code section 1368(a) shall be distinguished from other fees, fines, or assessments billed as part of the transfer or sales transaction. Delivery of the documents required by this subparagraph (c) shall not be withheld for any reason nor subject to any condition except the payment of the fees allowed pursuant to Civil Code section 1368((b).

(iv) The Association shall provide a recipient authorized by the Owner of a Condominium with a copy of the completed form specified in Civil Code section 1368.2 at the time the required documents are delivered.

(v) The provisions of this subparagraph (a), except for those provisions relating to the furnishing of a delinquency statement, shall not apply to any Owner who is subject to the requirements of California Business and Professions Code section 11018.1 (i.e., the obligation to provide prospective purchasers with a California Department of Real Estate Public Report in connection with the sale of a Condominium).

(b) Payment of Assessments and Compliance with Rules. Each Owner shall pay when due each Regular, Special, Emergency and Special Individual Assessment levied against the Owner and his or her Condominium Unit.

(c) Compliance with Rules. Each Owner shall observe, comply with and abide by any and all rules and regulations set forth in, or promulgated by the Association pursuant to, any Governing Document for the purpose of protecting the interests of all Owners or protecting the Common Area and Common Facilities. Without limiting the foregoing the Owners of the Vacation Rental Units agree to abide by the provisions of Sections 2.03(a) and 3.07(b) of this Declaration regarding the occupancy and rental of the Owners' Units.

(d) Discharge of Assessment Liens. Each Owner shall promptly discharge any Assessment lien that may hereafter become a charge against his or her Condominium Unit.

(e) Joint Ownership of Condominium Units. In the event of joint ownership of any Condominium Unit, the obligations and liabilities of the multiple Owners under the Governing Documents shall be joint and several. Without limiting the foregoing, this subparagraph (e) shall apply to all obligations, duties and responsibilities of Owners as set forth in this Declaration, including, without limitation, the payment of all Assessments.

(f) Termination of Obligations. Upon the conveyance, sale, assignment or other transfer of a Condominium Unit to a new Owner, the transferor-Owner shall not be liable for any Assessments levied with respect to such Unit which become due after the date of Recording of the deed evidencing the transfer and, upon such Recording, all Association membership rights possessed by the transferor by virtue of the ownership of the Unit shall automatically cease.

Section 2.05. Exclusive Use Common Areas. Portions of the Common Area are hereby set aside and allocated for the exclusive use of the Units and are designated herein and in the Condominium Plan as "Exclusive Use Common Areas." The Exclusive Use Common Areas

within the Project are designated and shown on the Condominium Plan as "Exclusive Use Deck", with one such deck adjacent to each Unit except for the Residence Unit which has two Exclusive Use Deck areas shown on the Plan. The following are also Exclusive Use Common Areas appurtenant to Unit 15: (a) parking spaces 6 and 7; (b) the Office Space on the first floor of the Building; (c) the commercial laundary area; and (d) the employees' break area and restroom.

Section 2.06. Project Parking Spaces. On the first floor of the Building there are a total of 19 parking spaces, of which one is designated for use by a person with disabilities. All of the Building parking spaces shall be subject to regulation by the Association and with the exception of the Owner of Unit 15 which has been allocated two parking spaces as Exclusive Use Common Area on the Condominium Plan (spaces 6 and 7), no Owner shall have any right in a particular parking space.

ARTICLE III
BEACH HOUSE INN ASSOCIATION

Section 3.01. Formation. The Beach House Inn Association is a California nonprofit mutual benefit corporation. On or before the first close of escrow for the sale of a Condominium Unit to an Owner, the Association shall be charged with the duties and invested with the powers set forth in the Governing Documents, including, but not limited to, control, maintenance and repair of the Common Area and Common Facilities.

Section 3.02. Association Action; Board of Directors and Officers. With the exception of those matters requiring approval of Members under the Governing Documents or California law, the affairs of the Association shall be conducted by or under the direction of the Board of Directors and such officers as the Board may elect or appoint. Except as otherwise provided in the Governing Documents or California law, all matters requiring the approval of Members shall be deemed approved if approved by a Majority of a Quorum of the Members.

Section 3.03. Membership.

(a) Qualifications. Each Owner of a Condominium Unit, including the Declarant, shall be a Member of the Association. An Owner shall hold one (1) membership in the Association for each Condominium Unit he or she owns. Sole or joint ownership of a Unit or interest in it shall be the sole qualification for membership in the Association. Each Owner shall remain a Member of the Association until his or her ownership of, or ownership interest, in all Condominium Units in the Project ceases, at which time the Owner's membership in the Association shall automatically cease. Persons or entities who hold an interest in a Unit merely as security for performance of an obligation are not Members.

(b) Members' Rights and Duties. Membership in the Association shall give rise to the rights, duties, and obligations set forth in the Governing Documents and any amendments thereto.

Section 3.04. Membership Voting.

(a) Commencement of Voting Rights. Unless the sale of Condominium Units within the Project is subject to a subsidization plan, approved by the California Commissioner of Real Estate, which provides otherwise, voting rights attributable to the ownership of Units shall not vest until Assessments against those Units have been levied by the Association.

(b) Classes of Membership. The Association shall have two (2) classes of voting membership, namely a Class A Members which shall initially consist of all Owners of Units except the Declarant and a Class B Membership which shall be held by the Declarant. The voting rights and other privileges of the two (2) classes of membership and the conversion of the Declarant's Class B membership into Class A membership shall be as set forth in Article IV of the Bylaws.

(c) Suspension of Voting Rights. Voting rights may be temporarily suspended under those circumstances described in Section 14.05, below.

(d) Intent of Provisions Imposing Limitations on Declarant Voting Rights. With the exception of any membership vote pursuant to Section 3.11, below, (relating to the enforcement of bonded obligations to complete Common Facilities), no provision of any Governing Document requiring approval of a prescribed majority of the voting power of the Association other than the Declarant is intended to preclude the Declarant from casting votes attributable to any Condominium Units owned by the Declarant. Instead, what is required is the approval of a bare majority of the Class B voting power as well as the approval of the prescribed majority of the Class A voting power. Once the Class B membership has been converted to Class A membership, the intent is to require the approval of a bare majority of the total voting power of the Association as well as the approval of the prescribed majority of the total voting power of the Members other than the Declarant.

Section 3.05. Assessments. The Association shall have the power to establish, fix and levy Assessments against the Owners of Units within the Project and to enforce payment of such Assessments, as more particularly provided in Article IV, below. Any Assessments levied by the Association against its Members shall be levied in accordance with, and pursuant to, the provisions of this Declaration.

Section 3.06. Transfer of Memberships. Membership in the Association shall not be transferred, encumbered, pledged or alienated in any way, except upon the sale of the Unit to which it is appurtenant, and then, only to the purchaser. In the case of a sale, the membership appurtenant to the transferred Unit shall pass automatically to the purchaser upon the Recordation of a deed evidencing the transfer of title. In the case of an encumbrance Recorded with respect to any Unit, the Mortgagee shall not possess any membership rights until the Mortgagee becomes an Owner by foreclosure or acceptance of a deed in lieu thereof. If any Owner fails or refuses to transfer the membership registered in his or her name to the purchaser of his or her Unit, the Association shall have the right to record the transfer upon its books and thereupon any other membership outstanding in the name of the seller shall be null and void.

Section 3.07. Powers and Authority of the Association.

(a) Powers, Generally. The Association shall have the power and the duty to maintain and repair the Project, to administer the affairs of the Owners and the operation of the Project as provided herein, to acquire (by lease or purchase), to levy, collect, and enforce the Assessments and Personal Charges enumerated in this Declaration, and to pay, as agent, the expenses and costs enumerated in this Declaration. The Association shall have the exclusive possession of each Vacation Rental Unit during the Maintenance Periods for the performance of maintenance and repairs on such Vacation Rental Unit. The Association shall have the power to do all things that are required to be done by it pursuant to this Declaration. In the discharge of such responsibilities and duties, the Association shall have all of the powers of a nonprofit mutual benefit corporation organized under the laws of the State of California in the ownership and management of its properties and the discharge of its responsibilities hereunder for the benefit of its Members, subject only to such limitations upon the exercise of such powers as are expressly set forth in the Governing Documents. The following powers and duties are in amplification and not limitation of the foregoing powers and duties:

(b) Hiring of the Property Manager or Property Management Company for the Vacation Rental Units. It shall be the responsibility of the Association's Board of Directors to contract with a property manager or property management company to manage the rental of the Vacation Rental Units. As stated in Section 2.03, above, the entity that is selected to provide the rental management services must be approved by a majority vote of the Association's Members and also by the City. The Conditions of Approval require that the following minimum requirements must be met by the manager of the Vacation Rental Units:

(i) Management Company Contact Information. The property management entity must include a local twenty-four (24) hour contact number where a person can be reached in case an issue arises with regard to any use of a Vacation Rental Unit. This contact telephone number must be posted in each of the Vacation Rental Units and posted conspicuously at the stair landing for each floor and adjacent to the elevator doors in the Project building.

(ii) Management Company Annual Rental and Income Reports. The property management entity must provide to the Association's Board of Directors, the City Finance Department and the City Planning Division a summary rental and income report no later than June 30th of each year that sets forth: (A) the number of days that each Vacation Rental Unit was rented; (B) the rents obtained for the fiscal year that is covered by the report; and (C) the number of days that each Vacation Rental Unit was occupied by the Unit Owner or otherwise not available to the general public as a Vacation Rental Unit.

(c) Association as Attorney-In-Fact for Owners. Without limiting the generality of the foregoing, the Association is hereby irrevocably appointed as the attorney-in-fact for the Owners of each and every Vacation Rental Unit to: (i) manage, control and deal with the interest of such Owners in the Common Area so as to permit the Association to fulfill all of its duties and obligations hereunder and to exercise all of its rights hereunder; (ii) deal with Project and the real property identified in Recital "A" in the event that the Project is destroyed or becomes obsolete; and (iii) to deal with and handle insurance and insurance proceeds, as provided in Article IX, below, and condemnation and condemnation awards, as provided in Article XI, below. The acceptance by any person or entity of any interest in any Vacation Rental Unit shall constitute an appointment of the Association as the Owner's attorney-in-fact as provided above.

(d) Cleaning and Housekeeping Service. The Association shall have the power and duty to do the following for each Vacation Rental Unit: (i) provide a full annual cleaning during a Maintenance Period; (ii) provide a full departure housekeeping service upon Check-Out by any Vacation Rental Unit Owner (the expenses of such services are included in the Basic Assessment); (iii) provide a daily "tidy clean" housekeeping service for Vacation Rental Unit Owners and renters of Vacation Rental Units; (iv) provide such cleaning as may be necessary so that each Vacation Rental Unit is maintained in good order and repair, (v) provide additional housekeeping service during a Use Period if requested by Owner or Permitted User of such Vacation Rental Unit at a reasonable fee to be determined by the Board to be charged to the Owner or Permitted User at the time of Check-Out.

(e) Collection of Damages. The Association shall have the power and duty to use reasonable efforts to collect from each Rental User who causes loss, damage or destruction to the Project the cost of the repair, restoration or replacement of the same to the extent such loss, damage or destruction is not covered by insurance proceeds paid to the Association, and to use reasonable efforts to collect from any Rental User who is a Detaining User the amount for which such Rental User would be liable under Section 2.04. if he were an Owner, subject to the Association's obligation to attempt to collect the amounts directly from the Rental User.

(f) Representation in Condemnation Proceedings. The Association shall have the power and duty to, represent the Unit Owners in any and all proceedings related to or arising out of condemnation or eminent domain proceedings. Upon receipt of notice of intention or notice of proceedings whereby all or any part of the Project is to be taken by any governmental body by exercise of the power of condemnation or eminent domain, all Owners and Mortgagees shall be immediately notified by the Association thereof. The Association shall represent the Owners in any condemnation or eminent domain proceedings or in negotiations, settlements and agreements with the condemning authority for acquisition of any part of the Project, and every Owner appoints the Association his attorney-in-fact for this purpose. The entire award made as compensation for such taking, including but not limited to any amount awarded as severance damages, or the entire amount received and paid in anticipation and settlement for such taking, after deducting therefrom, in each case, reasonable and necessary costs and expenses, including but not limited to attorneys' fees, appraisers' fees and court costs (which net amount shall hereinafter be referred to as the "Award"), shall be paid to the Association as trustee for the use and benefit of the Owners and their Mortgagees as their interests may appear. The Association has no obligation to distribute funds under this subparagraph other than those received by the Association as part of the Award.

(g) Right of Entry. The Association shall have the right, during Maintenance Periods and upon giving reasonable notice if a Vacation Rental Unit is occupied, to enter such Unit for the purpose of cleaning, housekeeping service, painting, maintenance and repair. The Association and its successors and assigns further shall have the right at any reasonably necessary time, whether or not in the presence of an Owner, to enter upon any Vacation Rental Unit in the Project for the purpose of (i) making emergency repairs therein, (ii) abating any nuisance or any dangerous, unauthorized, prohibited or unlawful activity being conducted or maintained in such Unit, (iii) protecting property rights and welfare of any Owner or Permitted User, or (iv) for any other purpose reasonably related to the performance by the Association of its duties and obligations under the terms of this Declaration. Such right of entry shall be

exercised in such a manner as to avoid any unreasonable or unnecessary interference with the possession, use and enjoyment of the rightful occupant of such Vacation Rental Unit and shall be preceded by reasonable notice to such occupant whenever the circumstances permit. Any action taken by the Association pursuant to the foregoing provisions of this subparagraph must be reasonably related to the performance by the Association of its responsibilities under the terms of this Declaration.

Section 3.08. Association Rules.

(a) Rule Making Power. The Board may, from time to time and subject to the provisions of this Declaration, propose, enact and amend rules and regulations of general application to the Owners ("Association Rules"). The Association Rules may concern, but need not be limited to: (i) matters pertaining to use of the Common Area and Common Facilities; (ii) architectural control under Article V, below (iii) regulation of pet ownership, parking, signs, collection and disposal of refuse and other matters subject to regulation and restriction under Article VIII, below; (iv) collection of delinquent Assessments; (v) minimum standards of maintenance of Units in the Project; (vi) the conduct of disciplinary proceedings in accordance with Section 13.06, below, (vii) and any other subject or matter within the jurisdiction of the Association as provided in the Governing Documents.

Notwithstanding the foregoing grant of authority, the Association Rules shall not be inconsistent with or materially alter any provision of the Governing Documents or the rights, preferences and privileges of the Owners thereunder. In the event of any material conflict between any Association Rule and the provisions of any other Governing Document, the conflicting provisions contained in the other Governing Document shall prevail. All Association Rules shall be adopted, amended and repealed (as the case may be) in good faith and in substantial compliance with this Declaration and California Civil Code sections 1357.100 through 1357.150.

(b) Distribution of Rules. A copy of the Association Rules, as they may from time to time be adopted, amended or repealed, shall be mailed or otherwise delivered to each Owner.

(c) Adoption and Amendment of Rules.

(i) Requirement of Prior Notice to the Members of Certain Operating Rules or Amendments Thereto. California Civil Code section 1357.100 defines an "Operating Rule" as an Association Rule or regulation that applies generally to the management and operation of the Project or to the conduct of the business and affairs of the Association. That Civil Code section further defines a "Rule Change" as any adoption, amendment, or repeal of an Operating Rule by the Board of Directors. Civil Code section 1357.120 identifies seven (7) types of Operating Rules (and Rule Changes involving such Operating Rules) that must first be provided to the members in writing at least thirty (30) days prior to the Board taking action to implement the Rule Change. The notice must include the text of the proposed Rule Change and a description of the purpose and effect of the proposed Rule Change. This requirement of prior notice to the Members applies only to Operating Rules that relate to one (1) or more of the following subjects:

(A) Use of the Common Areas of the Project;

(B) Use of any Condominium Unit in the Project;

(C) Member discipline, including any schedule of monetary penalties for violation of the Governing Documents and any procedure for the imposition of penalties;

(D) Any standards for delinquent Assessment payment plans;

(E) Any procedures adopted by the Association for resolution of disputes;

(F) Any procedures for reviewing and approving or disapproving a proposed physical change to an Owner's Unit; and

(G) Any procedures for the conduct of elections.

Specifically excluded by Civil Code section 1357.120 from the requirement of prior notice to Members are the following actions of the Board, regardless of whether those actions may be construed as being Association Rules or "Operating Rules", as defined in the Civil Code: (i) any Rule Change that the Board adopts to address an imminent threat to public health or safety or imminent risk of substantial economic loss to the Association (such "emergency rules" can be adopted and remain in effect for up to one hundred and twenty (120) days); (ii) decisions regarding maintenance of the Common Areas or Common Facilities; (iii) a decision on a specific matter that is not intended to apply to all Members, generally; (iv) establishing the amount of an Assessment; (v) adoption of a Rule Change that is required by law (if the Board of Directors has no discretion regarding the substantive effect of the Rule Change); and (vi) issuance of a document that merely repeats existing law or the Governing Documents.

With respect solely to Operating Rules and/or Rule Changes listed in subparagraphs (A) through (G), of subsection (c)(i) above, Civil Code section 1357.140 gives Members owning five percent (5%) or more of the Condominiums in the Project the right to demand that a special meeting of the Members be called to reverse a proposed Rule Change, so long as the request for the special meeting is delivered to the Association not more than thirty (30) days after the Members are given notice of the Rule Change. If a proper and timely demand for a special meeting to vote to rescind an Operating Rule or Rule Change is tendered to the Association, the Board shall establish the date, time and location of the meeting and provide notice thereof to the Members in accordance with Corporations Code section 7511(c).

So long as a quorum of the Members is present at any such meeting, the Rule Change can be reversed on the affirmative vote of a Majority of a Quorum of the Members, with each Member having one (1) vote on the matter for each Condominium owned. If the Members vote to reverse an Operating rule or a Rule Change, the Board may not take action to readopt the Operating Rule or Rule Change for a period of one (1) year after the date of the special meeting where reversal of the Operating Rule or Rule Change was approved; provided, however, that this provision is not intended to preclude the Board from adopting a different Operating Rule or Rule Change on the same subject as the Rule Change that was successfully reversed. As soon as possible following the close of voting on any proposal to reverse an Operating Rule or Rule

Change, but not more than fifteen (15) days after the close of voting, the Board shall provide notice to each Member of the results of the Member vote by personal delivery or first-class mail.

(ii) Minimum Content for Election Rules. Civil Code section 1363.03 requires associations to adopt rules regarding the conduct of elections that do all of the following:

(A) Ensure that any candidate or member advocating a point of view is provided access to Association media, newsletters, or Internet Web sites during a campaign so long as the access is reasonably related to that election, equal access shall be provided to all candidates and members advocating a point of view (whether or not endorsed by the Board). The Association may not edit or redact any content from these campaign communications, but may include a statement specifying that the candidate or Member, and not the Association, is responsible for that content.

(B) Ensure access to the Common Area meeting space, if any exists, during a campaign, at no cost, to all candidates, including those who are not incumbents, and to all Members advocating a point of view (whether or not endorsed by the Board) so long as use of the space is for a purpose that is reasonably related to the election.

(C) Specify the qualifications for candidates for election to the Board of Directors and any other elected position, and procedures for the nomination of candidates. A nomination or election procedure shall not be deemed reasonable if it disallows any Member of the Association from nominating himself or herself for election to the Board.

(D) Specify the qualifications for voting, the Voting Power of each membership, the authenticity, validity, and effect of proxies, and the voting period for elections, including the times at which polls will open and close.

(E) Specify a method of selecting one (1) or three (3) inspectors of election by the Board of Directors.

(F) Allow the inspector, or inspectors, to appoint and oversee additional persons to verify signatures and to count and tabulate votes as the inspector or inspectors deem appropriate, provided that the persons are independent third parties (as defined in Section 7.05(e) of the Bylaws).

(iii) Adoption of Other Association Rules. Except as provided in subsection (c)(i), above, with respect to certain Operating Rules and Rule Changes that must first be distributed to the Members, any other Association Rules may be adopted or amended from time to time by majority vote of the Board; provided, however, that no Association Rule or amendment thereto shall be adopted by the Board until at least thirty (30) days after the proposed rule or rule amendment has been distributed in writing to each Member, along with a description of the purpose and effect of the proposed Association Rule or amendment thereto. The notice describing the proposed rule or amendment shall also set forth the date, time and location of the Board meeting at which action on the proposal is scheduled to be taken. Any duly adopted rule or amendment to the Association Rules shall become effective immediately following the date of adoption thereof by the Board, or at such later date as the Board may deem appropriate. Any

duly adopted rule or rule amendment shall be distributed to the Owners by mail or personal delivery.

(iv) Prohibition on Adoption of Certain Rules. In accordance with Civil Code section 1368.1, any rule or regulation of an association that arbitrarily or unreasonably restricts an Owner's ability to market his or her Condominium Unit is void. Without limiting the foregoing, in no event shall the Association be entitled to impose an Assessment or fee in connection with the marketing of an Owner's Condominium in an amount that exceeds the Association's actual and direct costs (see also, Section 4.01(e), below).

Section 3.09. Breach of Rules or Restrictions. Any breach of the Association Rules or of any other Governing Document provision shall give rise to the rights and remedies set forth in Article XIII, below.

Section 3.10. Limitation on Liability of the Association's Directors, Officers, and Owners.

(a) Claims Regarding Breach of Duty. No director or officer of the Association (collectively and individually referred to as the "Released Party") shall be personally liable to any of the Members, or to any other person, for any error or omission in the discharge of his or her duties and responsibilities or for his or her failure to provide any service required under the Governing Documents; provided that such Released Party has, upon the basis of such information as he or she possessed, acted in good faith, in a manner that such person believes to be in the best interests of the Association and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Without limiting the generality of the foregoing, this standard of care and limitation of liability shall extend to such matters as the establishment of the Association's annual financial budget, the funding of Association capital replacement and reserve accounts, repair and maintenance of Common Areas and Common Facilities and enforcement of the Governing Documents.

(b) Other Claims Involving Tortious Acts and Property Damage. No person who suffers bodily injury (including, without limitation, emotional distress or wrongful death) as a result of the tortious act or omission of a volunteer director or volunteer officer of the Association shall recover damages from such director or officer if all of the following conditions are satisfied:

(i) The director or officer owns no more than two (2) Units;

(ii) The act or omission was performed within the scope of the volunteer director's or officer's Association duties;

(iii) The act or omission was performed in good faith;

(iv) The act or omission was not willful, wanton, or grossly negligent;

(v) The Association maintained and had in effect at the time the act or omission occurred and at the time a claim is made general liability insurance with coverage of at least Five Hundred Thousand Dollars ($500,000.00).

The payment of actual expenses incurred by a director or officer in the execution of such person's Association duties shall not affect such person's status as a volunteer director or officer for the purposes of this Section. The provisions of this subparagraph (b) are intended to reflect the protections accorded to volunteer directors and officers of community associations pursuant to California Civil Code section 5800. In the event said Civil Code section is amended or superseded by another, similar provision of the California statutes, this subparagraph (b) shall be deemed amended, without the necessity of further Member approval, to correspond to the amended or successor Civil Code provision.

(c) Nonliability of Owners. Pursuant to California Civil Code Section 5805, no Owner shall be liable for any cause of action in tort which can be brought against the Owner solely because of the Owner's undivided interest in the Common Area so long as the Association keeps one or more policies of insurance which include coverage for general liability of the Association in the amount required by California Civil Code Section 5805 and that insurance is in effect for the cause of action being brought.

ARTICLE IV
ASSESSMENTS

Section 4.01. Assessments Generally.

(a) Covenant to Pay Assessments. Declarant for each Condominium Unit owned within the Project, and each Owner of a Condominium Unit by acceptance of a deed therefor (whether or not it shall be so expressed in such deed), covenants and agrees to pay to the Association: (i) Regular Assessments; (ii) Special Assessments; (iii) Emergency Assessments and (iv) Special Individual Assessments. Each such Assessment shall be established and collected as hereinafter provided.

(b) Extent of Owner's Personal Obligation for Assessments. All Assessments, together with late charges, interest and reasonable costs (including reasonable attorneys' fees) for the collection thereof, shall be a debt and a personal obligation of the person who is the Owner of the Unit at the time the Assessment is levied. Each Owner who acquires title to a Condominium Unit (whether by conventional conveyance, at a judicial sale, trustee's sale or otherwise) shall be personally liable only for Assessments attributable to the Unit so purchased which become due and payable after the date that the person acquires title. Accordingly, when a person acquires title to a Unit, he or she shall not be personally liable for delinquent Assessments of prior Owners unless the new Owner expressly assumes the personal liability. However, if the acquired Unit is conveyed subject to a valid lien for delinquent Assessments (and related costs of collection), the Association may continue to exercise its foreclosure remedies against the Unit,

regardless of the change of ownership, and/or the Association may pursue its collection remedies against the prior Owner, individually.

(c) Creation of Assessment Lien. All Assessments and fees, other than Special Individual Assessments, together with late charges, interest, and reasonable costs for the collection thereof (including reasonable attorneys' fees), shall be a personal obligation of the assessed Owner as of the date that the Assessment is levied. In addition, the amount of the Assessment, plus any costs of collection, late charges, and interest assessed in accordance with section 1366 of the California Civil Code, shall be a lien on the Owner's Unit from and after the date that the Association causes to be Recorded in the Office of the County Recorder a Notice of Delinquent Assessment pursuant to Section 4.10(b), below. Any lien for unpaid Assessments (other than Special Individual Assessments) created pursuant to the provisions of this Article IV may be subject to foreclosure to the extent and as provided in Section 4.10(b), below. Certain Special Individual Assessments are prohibited by law from being recovered through the use of non-judicial foreclosure remedies.

(d) No Avoidance of Assessment Obligations. No Owner may exempt himself/herself or the Owner's Condominium Unit from liability or charge for the Owner's share of any Assessment made against the Owner or his or her share of any Regular or Special Assessment made against the Owner's Unit, by waiving or relinquishing, or offering to waive or relinquish, the Owner's right to use and enjoy all or any portion of the Common Area or Common Facilities or by the abandonment or non-use of the Owner's Unit.

Section 4.02. Regular Assessments.

(a) Preparation of Annual Budget; Establishment of Regular Assessments. Not less than thirty (30) days nor more than ninety (90) days prior to the beginning of the Association's fiscal year, the Board shall estimate the total amount required to fund the Association's anticipated Common Expenses for the next succeeding fiscal year (including additions to any reserve fund established to defray the costs of future repairs, replacement or additions to the Common Facilities) by preparing and distributing to all Members a budget satisfying the requirements of Section 12.05 of the Bylaws. If the Board fails to distribute the budget for any fiscal year within the time period specified in the first sentence of this section, the Board shall not be permitted to increase Regular Assessments for that fiscal year unless the Board first obtains the approval of the requisite percentage of the Members in accordance with Section 4.08, below. If the budget indicates that there will be an increase in the Regular Assessment or that it will be necessary to levy a Special Assessment during the fiscal year, the Association shall so advise the Members, by first-class mail, of this fact not less than thirty (30) nor more than sixty (60) days prior to the increased Regular Assessment or the Special Assessment becoming due.

(b) Establishment of Regular Assessment by Board/Membership Approval Requirements. The total annual expenses estimated in the Association's budget (less projected income from sources other than Assessments) shall become the aggregate Regular Assessment for the next succeeding fiscal year; provided, however, that, except as provided in Section 4.05, below, the Board of Directors may not impose a Regular Assessment that is more than twenty percent (20%) greater than the Regular Assessment for the Association's immediately preceding fiscal year without the Members' prior approval in accordance with Section 4.08, below.

(c) Commencement of Regular Assessments. Regular Assessments shall commence with respect to all Condominium Units within the Project on the first day of the month next following the closing date of the first sale of a Condominium Unit under authority of a Department of Real Estate Public Report to an Owner other than the Declarant.

(d) Allocation of Regular Assessment. The total estimated Common Expenses of the Association, determined in accordance with subparagraph (a), above, shall be allocated among, assessed against, and charged to each Unit according to the Share of Common Expenses Schedule that is attached hereto as Exhibit "B". That Schedule allocates certain components of the total Association Common Expenses (which are referenced in the Schedule as the "Equal Assessment Component") on an equal basis among all Units in the Project, regardless of the size of Units. Other line item elements of the Association's total Common Expenses for insurance, exterior painting of the Project building, and building roof replacement (i.e., Common Expenses that will vary in terms of the benefit conferred and value received by each Unit depending on the size of Units) are allocated in the Schedule as the "Variable Assessment Component" with the allocation for each Unit for those Common Expenses being in accordance with a formula based on the ratio of the square footage of the floor area of each Unit within the Project owned by the assessed Owner(s) to the total square footage of floor area of all Units in the Project. In accordance with Department of Real Estate Regulation Section 2792.16(b), it is the intent of the equal and variable Assessment allocations set forth in the Share of Common Expenses Schedule to equitably allocate the Association's aggregate Regular Assessments for each year.

(e) Assessment Roll. That portion of the estimated Common Expenses assessed against and charged to each Owner shall be set forth and recorded in an Assessment roll which shall be maintained and available with the records of the Association and shall be open for inspection at all reasonable times by each Owner or his or her authorized representative for any purpose reasonably related to the Owner's interest as a property Owner or as a Member of the Association. The Assessment roll shall show, for each Unit, the name and address of the Owner of Record, all Regular, Special and Special Individual Assessments levied against each Owner and his or her Unit, and the amount of such Assessments which have been paid or remain unpaid. The delinquency statement required by Section 2.06(c), above, shall be conclusive upon the Association and the Owner of such Unit as to the amount of such indebtedness appearing on the Association's Assessment roll as of the date of such statement, in favor of all persons who rely thereon in good faith.

(f) Mailing Notices of Assessments and Related Financial Disclosures. Not less than thirty (30) nor more than sixty (60) days prior to the beginning of the Association's fiscal year the Board of Directors shall provide notice by first-class mail to the Owners of Lots, at the street address of the Owner's Lot, or at such other address as the Owner may from time to time designate in writing to the Association, of the amount of the Regular Assessment for the next succeeding fiscal year. This notice is in addition to the following notices which must also be distributed to the Members: (i) the written notice required by Civil Code section 1365.1 which Members with general information regarding assessments, foreclosure rights, payment of assessments and payment plans; (ii) the form required by Civil Code section 1365.2.5 that provides summarized information regarding the amount of the current Annual Assessment, additional assessments that have already been scheduled to be imposed or charged, and the calculation of capital replacement reserve replacement needs and reserve account funding

requirements; and (iii) the statement that is required by Civil Code section 1365(e) which describes the Association's policies and practices in enforcing lien rights or other legal remedies for the collection of delinquent assessment obligations. These budgets and disclosure documents shall be delivered to the Members by one of the methods authorized by Civil Code section 1350.7.

(g) Failure to Make Estimate. If, for any reason, the Board of Directors fails to make an estimate of the Common Expenses for any fiscal year, then the Regular Assessment made for the preceding fiscal year, together with any Special Assessment made pursuant to Section 4.03(a)(i), below, for that year, shall be assessed against each Owner and his or her Condominium Unit on account of the then current fiscal year, and installment payments (as hereinafter provided) based upon such automatic Assessment shall be payable on the regular payment dates established by the Board.

(h) Installment Payment. The Regular Assessment made against each Owner shall be due and payable in advance to the Association in equal monthly installments on the first day of each month or on such other date or dates as may be established from time to time by the Board of Directors. Installments of Regular Assessments shall be delinquent if not paid within fifteen (15) days of the due date as established by the Board.

Section 4.03. Special Assessments.

(a) Purposes for Which Special Assessments May Be Levied. Subject to the membership approval requirements set forth in subparagraph (b) below, the Board of Directors shall have the authority to levy Special Assessments against the Owners and their Condominium Units for the following purposes:

(i) Regular Assessment Insufficient in Amount. If, at any time, the Regular Assessment for any fiscal year is insufficient in amount due to extraordinary expenses not contemplated in the budget prepared for said fiscal year, then the Board of Directors shall levy and collect a Special Assessment, applicable to the remainder of such year only, for the purpose of defraying, in whole or in part, any deficit which the Association may incur in the performance of its duties and the discharge of its obligations hereunder.

(ii) Capital Improvements. The Board may also levy Special Assessments for additional capital Improvements within the Common Area (i.e., Improvements not in existence on the date of this Declaration that are unrelated to repairs for damage to, or destruction of, the existing Common Facilities). The Special Assessment power conferred hereunder is not intended to diminish the Board's obligation to plan and budget for normal maintenance, and replacement repair of the Common Area or existing Common Facilities through Regular Assessments (including the funding of reasonable reserves) and to maintain adequate insurance on the Common Area and existing Common Facilities in accordance with Article IX, below.

(b) Special Assessments Requiring Membership Approval. The following Special Assessments require prior membership approval in accordance with Section 4.08, below: (i) any Special Assessments which, in the aggregate, exceed five (5%) percent of the Association's budgeted gross expenses for the fiscal year in which the Special Assessment(s) is/are levied; and

(ii) any Special Assessments imposed pursuant to subparagraph (a)(i) of this section when the Board has failed to distribute a budget to the Members within the time specified in Section 4.02(a), above. The foregoing Member approval requirements shall not apply, however, to any Special Assessment imposed to address any "emergency situation" as defined in Section 4.05, below.

(c) Allocation and Payment of Special Assessments. When levied by the Board or approved by the Members as provided above, the Special Assessment shall be divided among, assessed against and charged to each Owner and his or her Condominium Unit (including the Declarant as to any unsold or retained Units) in the same manner prescribed for the allocation of Regular Assessments pursuant to Section 4.02(d), above. Notwithstanding the foregoing, any Special Assessment levied to raise funds for the rebuilding or major repair of the structural Common Area housing Units shall be levied on the basis of the ratio of the square footage of floor area of the Unit to be assessed to the total square footage of floor area of all Units to be assessed. The Special Assessment so levied shall be recorded on the Association's Assessment roll and notice thereof shall be mailed to each Owner.

Special Assessments for purposes described in subparagraph (a)(i) of this section shall be due as a separate debt of the Owner and a lien against his or her Unit, and shall be payable to the Association in equal monthly installments during the remainder of the then current fiscal year. Special Assessments for purposes described in subparagraph (a)(ii) shall be due as a separate debt of the Owner and a lien against his or her Unit, and shall be payable in full to the Association within thirty (30) days after the mailing of such notice or within such extended period as the Board shall determine to be appropriate under the circumstances giving rise to the Special Assessment.

Section 4.04. Special Individual Assessments.

(a) Circumstances Giving Rise to Special Individual Assessments. In addition to the Special Assessments levied against all Owners in accordance with Section 4.03, above, the Board of Directors may impose Special Individual Assessments against an Owner in any of the circumstances described in subparagraphs (i) through (iii) below; provided, however, that no Special Individual Assessments may be imposed against an Owner pursuant to this section until the Owner has been afforded the notice and hearing rights to which the Owner is entitled pursuant to Section 13.06, below, and, if appropriate, has been given a reasonable opportunity to comply voluntarily with the Governing Documents. Subject to the foregoing, the acts and circumstances giving rise to liability for Special Individual Assessments include the following:

(i) Damage to Common Area or Common Facilities. In the event that any damage to, or destruction of, any portion of the Common Area or the Common Facilities, or any portion of any Unit which the Association is obligated to repair and maintain, is caused by the willful misconduct or negligent act or omission of any Owner, any member of his or her family, or any of his or her tenants, guests, servants, employees, licensees or invitees, the Board shall cause the same to be repaired or replaced, and all costs and expenses incurred in connection therewith (to the extent not compensated by insurance proceeds) shall be assessed and charged solely to and against such Owner as a Special Individual Assessment.

(ii) Expenses Incurred in Gaining Member Compliance. In the event that the Association incurs any costs or expenses to: (A) accomplish the payment of delinquent Assessments; (B) perform any repair, maintenance or replacement to any portion of the Project that the Owner is responsible to maintain under the Governing Documents but has failed to undertake or complete in a timely fashion; or (C) otherwise bring the Owner and/or his or her Unit into compliance with any provision of the Governing Documents, the amount incurred by the Association (including reasonable fines and penalties duly imposed hereunder, title company fees, accounting fees, court costs and reasonable attorneys fees) shall be assessed and charged solely to and against such Owner as a Special Individual Assessment. The Association's Special Individual Assessment authority hereunder shall extend to the collection of any reasonable fines or penalties imposed against an Owner pursuant to Article XIII, below.

(iii) Required Maintenance With Respect to Separate Interests. If any Unit or Exclusive Use Common Area is maintained so as to become a nuisance or a fire or safety hazard for any reason, the Association shall have the right to enter said Unit or Exclusive Use Common Area, correct the condition and recover the cost of such action through imposition of a Special Individual Assessment against the offending Owner. Any entry on the property of any Owner by the Association shall be effected in accordance with Section 3.07, above.

(b) Levy of Special Individual Assessment and Payment. Once a Special Individual Assessment has been levied against an Owner for any reason described, and subject to the conditions imposed in subparagraph (a) of this section, such Special Individual Assessment shall be recorded on the Association's Assessment roll and notice thereof shall be mailed to the affected Owner. The Special Individual Assessment shall thereafter be due as a separate debt of the Owner payable in full to the Association within thirty (30) days after the mailing of notice of the Assessment.

(c) Limitation on Right to Lien Units For Special Individual Assessments. The right of the Association to collect delinquent Special Individual Assessments through the use of lien and foreclosure remedies is subject to the limitations set forth in Section 4.10(b)(ix), below. However Special Individual Assessments may be collected by the Association through the use of other legal processes, including, without limitation, an action in small claims court.

Section 4.05. Assessments to Address Emergency Situations.

(a) Authority of Board to Impose Emergency Assessments. The requirement of a membership vote to approve: (i) Regular Assessment increases in excess of twenty percent (20%) of the previous year's Regular Assessment; or (ii) Special Assessments which, in the aggregate, exceed five percent (5%) of the Association's budgeted gross expenses for the fiscal year in which the Special Assessment(s) is/are levied, shall not apply to Assessments necessary to address emergency situations ("Emergency Assessments"). For purposes of this Section, an emergency situation is any of the following:

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

(ii) An extraordinary expense necessary to repair or maintain the Common Areas or Common Facilities where a threat to personal safety is discovered; or

(iii) An extraordinary expense necessary to repair or maintain the Common Areas or Common Facilities that could not have been reasonably foreseen by the Board in preparing and distributing the budget pursuant to Section 4.02(a), above; provided, however, that prior to the imposition or collection of an assessment under this subparagraph (iii), 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. The Board's resolution shall be distributed to the Members together with the notice of assessment.

(b) Payment of Emergency Assessments. When levied by the Board the Emergency Assessment shall be divided among, assessed against and charged to each Owner and his or her Unit (including the Declarant as to any unsold or retained Lots) in the same manner prescribed for the allocation of Regular Assessments pursuant to Section 4.02(e), above. The Emergency Assessment so levied shall be recorded on the Association's Assessment roll and notice thereof shall be mailed to each Owner. An Emergency Assessment shall be due as a separate debt of the Owner and shall be payable in full to the Association within thirty (30) days after the mailing of the notice of the Emergency Assessment or within such extended period as the Board shall determine to be appropriate under the circumstances giving rise to the Emergency Assessment. If an Emergency Assessment is not paid on or before the due date, the Assessment may be enforced in the manner provided in Section 4.10, below.

Section 4.06. Purpose and Reasonableness of Assessments. Each Assessment made in accordance with the provisions of this Declaration is hereby declared and agreed to be for use exclusively: (a) to promote the recreation, health, safety and welfare of individuals residing within the Project; (b) to promote the enjoyment and use of the Project by the Owners and their families, tenants, invitees, licensees, guests and employees; and (c) to provide for the repair, maintenance, replacement and protection of the Common Area and Common Facilities. Each and every Assessment levied hereunder is further declared and agreed to be a reasonable Assessment, and to constitute a separate, distinct and personal obligation of the Owner of the Condominium Unit against which the Assessment is imposed that shall be binding on the Owner's heirs, successors and assigns; provided, however, that the personal obligation of each Owner for delinquent Assessments shall not pass to the Owner's successors in title unless expressly assumed by them. Subject to the limitations imposed by Section 4.04(c), above, limiting the right of the Association to impose a lien as a remedy for collecting most Special Individual Assessments, the Association shall also be entitled to collect delinquent Assessments through lien and foreclosure, as more particularly provided in Section 4.10, below.

Section 4.07. Exemption of Certain Portions of the Project From Assessments. The following real property subject to this Declaration shall, unless devoted to the use as a residential dwelling, be exempt from the Assessments and the lien thereof provided herein:

(a) Any portion of the Project dedicated and accepted by a local public authority;

(b) The Common Area and Common Facilities; and

(c) Any Unit that is owned by the Association.

Section 4.08. Notice and Procedure for Member Approval Pursuant to Sections 4.02 and 4.03. In the event that Member approval is required in connection with any increase or imposition of Assessments pursuant to Sections 4.02 and 4.03, above, the affirmative vote required to approve the increase shall be a Majority of a Quorum of the Members. The quorum required for such membership action shall be a majority of the Members. Any vote on an increase in the Regular Assessment or on the imposition of a Special Assessment that requires approval of the Members must be conducted by use of a secret ballot and that balloting process shall be conducted using the same procedures for the casting of ballots in the election of directors pursuant to Section 7.05 of the Bylaws.

Section 4.09. Maintenance of Assessment Funds.

(a) Establishment and Maintenance of Association Bank Accounts. All sums received or collected by the Association from Assessments, together with any interest or late charges thereon, shall be promptly deposited in one or more insured checking, savings or money market accounts in a bank or savings and loan association selected by the Board of Directors. In addition, the Board shall be entitled to make prudent investment of reserve funds in FDIC insured certificates of deposit, money market funds or similar investments consistent with the investment standards normally observed by trustees. The Board and such officers or agents of the Association as the Board shall designate shall have exclusive control of said account(s) and investments and shall be responsible to the Owners for the maintenance at all times of accurate records thereof. The withdrawal of funds from Association accounts shall be subject to the minimum signature requirements imposed by California Civil Code section 1365.5(b) and Section 12.02 of the Bylaws. Any interest received on deposits shall be credited proportionately to the balances of the various Assessment fund accounts maintained on the books of the Association as provided in subparagraph (b), below.

(b) Expenditure of Assessment Funds. Except as provided below, the proceeds of each Assessment shall be used only for the purpose for which such Assessment was made, and such funds shall be received and held in trust by the Association for such purpose. Notwithstanding the foregoing, the Board, in its discretion, may make appropriate adjustments among the various line items in the Board's approved general operating budget if the Board determines that it is prudent and in the best interest of the Association and its Members to make such adjustments. If the proceeds of any Special Assessment exceed the requirement of which such Assessment was levied, such surplus may, in the Board's discretion, be: (i) returned proportionately to the contributors thereof; (ii) reallocated among the Association's reserve accounts if any such account is, in the Board's opinion, underfunded; or (iii) credited proportionately on account of the Owners' future Regular Assessment obligations. In accordance with Civil Code section 1365.5(c)(1), except for temporary transfers of monies from reserve funds that are permitted pursuant to subparagraph (d), below, the Board of Directors shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components of the Condominium Project that the Association is obligated to repair, restore, replace or maintain and for which the reserve fund was established.

(c) Separate Accounts; Commingling of Funds. Except as otherwise provided in subparagraph (d), below, to preclude a multiplicity of bank accounts, the proceeds of all

Assessments may be commingled in one or more accounts and need not be deposited in separate accounts so long as the separate accounting records described herein are maintained. For purposes of accounting, but without requiring any physical segregation of assets, the Association shall keep a separate accounting of all funds received by the Association in payment of each Assessment and of all disbursements made therefrom; provided, however, that receipts and disbursements of Special Assessments made pursuant to Section 4.03(a)(i), above, shall be accounted for together with the receipts and disbursements of Regular Assessments, and a separate accounting shall be maintained for each capital improvement for which reserve funds for replacement are allocated.

Unless the Association is exempt from federal or state taxes, all sums allocated to capital replacement funds shall be accounted for as contributions to the capital of the Association and as trust funds segregated from the regular income of the Association or in any other manner authorized by law or regulations of the Internal Revenue Service and the California Franchise Tax Board that will prevent such funds from being taxed as income of the Association.

(d) Reserve Funds.

(i) Required Study of Reserve Account Requirements. As more particularly provided in Section 12.06 of the Association Bylaws, at least once every three (3) years, the Association Board is required by Civil Code section 1365.5(e) to cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components of the Condominium Project that the Association is obligated to repair, replace, restore, or maintain as part of a study of the Association's reserve account requirements. This three (3) year rolling study must also be reviewed annually by the Board and adjusted as appropriate. As used herein, the phrase "major components of the Condominium Project" include those elements of the Project that are maintained by the Association which have a remaining useful life of less than thirty (30) years. The study of the Association's reserve account requirements shall include all of the following:

(A) an identification of the probable remaining useful life of the major components;

(B) an estimate of the cost of repair, replacement, restoration, or maintenance of the major components during and at the end of their useful life;

(C) an estimate of the total annual contribution necessary to defray the cost of repairing, replacing, restoring, or maintaining the major components both during and at the end of their useful life (taking into account reserve funds on hand); and

(D) a reserve funding plan that will disclose to the Members how the Association intends to raise the money that the study indicates the Association will need at any specified point in time. If the plan includes a change in the amount of the Regular Assessment or imposition of a Special Assessment to provide adequate funding of reserve requirements, the funding plan shall disclose the schedule of the date and amount of that Assessment.

(ii) Adoption of the Reserve Funding Plan. The reserve funding plan that is required pursuant to subparagraph (i) shall be adopted by the Board of Directors at an open

meeting before the membership of the Association and if the plan includes an increase in Assessments to property fund the reserve accounts, approval of that increase shall be done as a separate action of the Board, with member approval for the action if required by Civil Code section 1366(b). The Association shall be obligated to provide its Members with a summary of the reserve funding plan adopted by the Board of Directors in accordance with Civil Code sections 1365(b) and 1365.5(e)(5). This summary shall include notice to the Members that the full reserve study plan is available upon request. Upon receipt of a request from a Member, the Association shall provide that Member with a copy of the complete reserve plan.

(iii) Permitted Temporary Transfers of Reserve Funds. Notwithstanding the restrictions on the use of reserve funds set forth in subparagraph (b), above, the Board may authorize the temporary transfer of money from a reserve fund to the Association's general operating fund to meet short term cash flow requirements or other expenses if the Board has provided notice of the intent to consider the transfer in a notice of meeting, which shall be provided to the Members as specified in Civil Code section 1363.05(d). The notice shall include the reasons why the transfer is needed, some of the options for repayment, and whether a Special Assessment may be considered. If the Board authorizes the transfer, the Board shall issue a written finding, recorded in the Board's minutes, explaining the reasons why the transfer is needed, and describing when and how the monies will be repaid to the reserve fund.

The transferred funds shall be restored to the reserve fund within one year of the date of the initial transfer, except that the Board may, after giving the same notice required for considering a transfer, and upon making a finding supported by documentation that a temporary delay would be in the best interests of the Project, temporarily delay the restoration. The Board shall exercise prudent fiscal management in delaying restoration of these funds and in restoring the expended funds to the reserve account, and shall, if necessary, levy a Special Assessment to recover the full amount of the expended funds within the time limits required by this subparagraph (d). This Special Assessment is subject to the Member approval requirements of California Civil Code section 1366 and Section 4.03(b), above, if the aggregate amount of the Special Assessment exceeds five percent (5%) of the budgeted gross expenses of the Association for the year in which the Special Assessment is imposed. The Board may, at its discretion, extend the date the payment on the Special Assessment is due. Any extension shall not prevent the Board from pursuing any legal remedy to enforce the collection of an unpaid Special Assessment.

When the decision is made to use reserve funds or to temporarily transfer money from the reserve fund to pay for litigation, the Association shall notify the Members of that decision in the next available mailing to all Members pursuant to California Corporations Code section 5016, and of the availability of an accounting of those expenses. The Association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by Members at the Association's principal office.

(e) Limitations on Association's Authority to Assign or Pledge Assessment Obligations. The Association may not voluntarily assign or pledge its right to collect payments or Assessments, or to enforce or foreclosure a lien to a third party, except when the assignment or pledge is made to a financial institution or lender chartered or licensed under federal or state law, when acting within the scope of that charter or license, as security for a loan obtained by the

Association. However, the restrictions imposed by this subparagraph (e) shall not restrict the right or ability of the Association to assign any unpaid obligations to a former Member to a third party for purposes of collection.

Section 4.10. Collection of Assessments; Enforcement of Liens. Installments of Regular Assessments shall be delinquent if not paid within fifteen (15) days of the due date as established by the Board. Special Assessments, Special Individual Assessments and Emergency Assessments shall be delinquent if not paid within the times prescribed in Sections 4.03(c), 4.04(b) and 4.05(b), respectively. When an Assessment becomes delinquent, the amount thereof may, at the Board's election, bear interest at the maximum rate allowed by law commencing thirty (30) days after the due date until the same is paid. In addition to the accrual of interest, the Board of Directors is authorized and empowered to promulgate a schedule of reasonable late charges for any delinquent Assessments, subject to the limitations imposed by California Civil Code sections 1366(c) and 1366.1 or comparable successor statutes. Once an assessment becomes delinquent, the Association may elect to apply one or both of the following remedies:

(a) Enforcement of An Owner's Personal Obligation to Pay Assessments. The Association may bring a legal action directly against the Owner for breach of the Owner's personal obligation to pay the Assessment and in such action the Association shall be entitled to recover the delinquent Assessment or Assessments, accompanying late charges, interest, costs and reasonable attorneys' fees. Commencement of a legal action shall not constitute a waiver of any lien rights as described in subparagraph (b), below.

(b) Imposition and Enforcement of Assessment Lien and Limitations Thereon. Except as otherwise provided in subparagraph (b)(ix), below (which imposes limitations on the right of the Association to utilize non-judicial foreclosure remedies to collect certain Special Individual Assessments), the Association may impose a lien against the Owner's Condominium Unit for the amount of the delinquent Assessment or Assessments, plus any reasonable costs of collection (including reasonable attorneys fees), late charges and interest by taking the following steps:

(i) Issuance of Delinquency Notice; Contents. At least thirty (30) days prior to recording a lien upon the Owner's Condominium Unit to collect a delinquent Assessment, the Association shall notify the Owner in writing by certified mail of the following (the "Delinquency Notice"):

(A) A general description of the collection and lien enforcement procedures of the Association and the method of calculation of the amount, a statement that the Owner of the Condominium Unit has the right to inspect the Association records, pursuant to section 8333 of the Corporations Code, and the following statement in 14-point boldface type, if printed, or in capital letters, if typed: "IMPORTANT NOTICE: IF YOUR CONDOMINIUM UNIT IS PLACED IN FORECLOSURE BECAUSE YOU ARE BEHIND IN YOUR ASSESSMENTS, IT MAY BE SOLD WITHOUT COURT ACTION."

(B) An itemized statement of the charges owed by the Owner, including items on the statement which indicate the amount of any delinquent Assessments, the

fees and reasonable costs of collection, reasonable attorneys' fees, any late charges, and interest, if any.

(C) A statement that the Owner shall not be liable to pay the charges, interest, and costs of collection previously levied by the Association if it is subsequently determined that the Assessment was paid on time.

(D) The right of the notified Owner to request a meeting with the Board as provided in subparagraph (iii), below.

(E) The right to dispute the assessment debt by submitting a written request for dispute resolution to the Association pursuant to the Association's "meet and confer" program pursuant to Civil Code section 1363.810, et seq.

(F) The right of the noticed Member to request alternative dispute resolution with a neutral third party pursuant to Civil Code section 1369.510 et seq. before the Association may initiate foreclosure against the Owner's Condominium Unit, except that binding arbitration shall not be available if the Association intends to initiate a judicial foreclosure, rather than a non-judicial foreclosure.

(ii) Application of Payments. Any payments made by a delinquent Owner toward the delinquent Assessments that are in arrears shall first be applied to the Assessments that are owed at the time the payment is made; and only after the Assessments owed are paid in full shall the payments be applied to the fees and the costs of collection, attorneys' fees, late charges or interest. When an Owner makes a payment, the Owner may request a receipt and the Association shall provide it. The receipt shall indicate the date of payment and the person who received the payment on behalf of the Association. The Association shall provide its Members with a mailing address for overnight payment of Assessments.

(iii) Pre-Lien Offer to Meet and Confer with the Owner or to Participate in ADR. Prior to recording a lien for delinquent assessments, the Association shall offer the Owner and, if so requested by the Owner, participate in dispute resolution pursuant to the Association's meet and confer program that is required by Civil Code section 1363.810, et seq. or alternative dispute resolution with a neutral third party pursuant to Civil Code section 1369.510 et seq. The decision to pursue dispute resolution or a particular type of alternative dispute resolution shall be the choice of the Owner, except that binding arbitration shall not be available if the Association intends to initiate a judicial foreclosure.

(iv) Rights of Owners to Propose Payment Plans. An Owner may also submit a written request to meet with the Board to discuss a payment plan for the delinquent assessment. This request must also be made within fifteen (15) days of the postmark of the Delinquency Notice. The Association shall provide the Owners with the standards for payment plans, if such standards have been adopted. So long as a timely request for a meeting has been tendered, the Board shall meet with the Owner in executive session within forty-five (45) days of the postmark of the request for a meeting, unless there is no regularly-scheduled Board meeting within that period, in which case the Board may designate a committee of one or more Members to meet with the Owner. Payment plans may incorporate any assessments that accrue during the payment

plan period. Payment plans shall not impede an Association's ability to record a lien on the Owner's Condominium Unit to secure payment of delinquent assessments. Additional late fees shall not accrue during the payment plan period if the Owner is in compliance with the terms of the payment plan. In the event of a default on any payment plan, the Association may resume its efforts to collect the delinquent assessments from the time prior to entering into the payment plan.

(v) Association Assessment Lien Rights. Except as provided in subparagraph (ix), below (relating to Special Individual Assessments), the amount of the Assessment, plus any costs of collection, late charges, and interest assessed in accordance with Civil Code section 1366 shall be a lien on the Owner's Condominium Unit from and after the time the Association causes to be recorded in the Office of the County Recorder a Notice of Delinquent Assessment. The Notice of Delinquent Assessment shall state the amount of the Assessment and other sums imposed in accordance with Civil Code section 1366, a legal description of the Owner's Condominium Unit against which the Assessment and other sums are levied, and the name of the record owner of the Owner's Condominium Unit against which the lien is imposed. The itemized statement of the charges owed by the Owner that is required by subparagraph (b)(i)(B), of this Section 4.10 shall be recorded together with the Notice of Delinquent Assessment. The decision to record a lien for delinquent assessments shall be made only by the Board of Directors of the Association and may not be delegated to an agent of the Association. The Board shall approve the decision by a majority vote of the Board in an open meeting and the vote shall be recorded in the minutes of the meeting. If the Association fails to abide by the pre-lien notice and other procedures set forth above, the Association must recommence the required notice process, with any resulting additional costs being borne solely by the Association.

In order for the lien to be imposed by non-judicial foreclosure as provided in subparagraph (vii), below, the Notice of Delinquent Assessment shall state the name and address of the trustee authorized by the Association to enforce the lien by sale. The Notice of Delinquent Assessment shall be signed by any officer of the Association or by the person designated by the Association for that purpose or if no one is designated, by the president of the Association. A copy of the recorded Notice of Delinquent Assessment shall be mailed by certified mail to every person whose name is shown as an Owner of the Condominium Unit in the Association's records, and the notice shall be mailed no later than ten (10) calendar days after its Recordation. Upon receipt of a written request by an Owner identifying a secondary address for purposes of collection notices, the Association shall send additional copies of any notices, including Notices of Delinquent Assessments and Notices of Default, required by Civil Code section 1367.1 to the secondary address that is specified.

(vi) Priority of Assessment Liens. A lien created pursuant to subparagraph (v), above, or subparagraph (ix), below, shall be prior to all other liens recorded against the Owner's Condominium Unit subsequent to the Notice of Delinquent Assessment, except as described in Section 4.12, below.

(vii) Enforcement of Assessment Liens. Subject to the limitations of this Section 4.10(b) and in particular this subparagraph (vii), after the expiration of thirty (30) days following the recording of a Notice of Delinquent Assessment, the Association's lien 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 Civil Code section 2934(a). Any sale by the trustee shall be conducted in accordance with Civil Code sections 2924, 2924(b) and 2924(c) applicable to the exercise of powers of sale in mortgages and deeds of trusts. The fees of a trustee may not exceed the amounts prescribed in Civil Code sections 2924(c) and 2924(d). In addition to the requirements of Civil Code section 2924, a notice of default shall be served by the Association on the Owner's legal representative in accordance with Code of Civil Procedure section 415.10. As used herein, the Owner's legal representative shall be the person whose name is shown as the Owner of the liened Condominium Unit on the records of the Association unless another person has been previously designated by the Owner as his or her legal representative in writing and mailed to the Association in a manner that indicates that the Association has received the designation.

The following specific limitations shall apply to the Association's authority to pursue foreclosure remedies as a means of collecting delinquent Assessments:

(A) The decision to initiate foreclosure of a lien for delinquent assessments that has been validly recorded shall be made only by the Board of Directors of the Association and may not be delegated to an agent of the Association. The Board shall approve the decision by a majority vote of the Board in an executive session and shall record the vote in the minutes of the next meeting of the Board that is open to attendance by the Members. The Board shall maintain the confidentiality of the Owner or Owners of the Condominium Unit to which the delinquent Assessment(s) pertains by identifying the matter in the minutes by the parcel number of the property, rather than the name of the Owner or Owners. A Board vote to approve foreclosure of a lien shall take place at least thirty (30) days prior to any public sale of the Condominium Unit in question.

(B) Prior to initiating a foreclosure for delinquent assessments, the Association shall offer the Owner and, if so requested by the Owner, participate in dispute resolution pursuant to the Association's meet and confer program that is required by Civil Code section 1363.810 et seq. or alternate dispute resolution with a neutral third party pursuant to Civil Code section 1369.510 et seq. The decision to pursue dispute resolution or a particular type of alternative dispute resolution shall be the choice of the Owner, except that binding arbitration shall not be available if the Association intends to initiate judicial foreclosure, rather than non-judicial foreclosure.

(C) If the Board votes to commence foreclosure proceedings to collect delinquent assessments pursuant to this subparagraph (vii), the Board shall provide notice of that decision by personal service to an Owner of the Condominium Unit who occupies the Unit or to the Owner's legal representative. If the Owner does not occupy the Unit that is the subject of the foreclosure proceeding, the Board shall provide written notice to the Owner by first-class mail, postage prepaid, at the most current address for the Owner that is shown on the books of the Association. In the absence of written notification by the Owner to the Association, the address of the Owner's Condominium Unit may be treated as the Owner's mailing address.

(D) Debts for Assessments, Regular or Special, may not be collected through the use of judicial or non-judicial foreclosure remedies until the delinquent assessment amount, exclusive of any accelerated assessments, late charges, fees, costs of collection,

attorney's fees, and interest, equals or exceeds $1,800.00 or the Assessments are more than twelve (12) months delinquent. Delinquent Assessments in a smaller amount may not be collected through the use of foreclosure remedies, but may be collected through the use of any of the following other means: (aa) a civil action in small claims court; (bb) by recording a lien on the Owner's Condominium Unit (subject to the restrictions on foreclosure of that lien); or (cc) any other manner provided by law, other than judicial or non-judicial foreclosure. If the Association elects to record a lien for delinquent Assessments, prior to recording the lien the Association shall offer the Owner, and if so requested by the Owner, the opportunity to participate in dispute resolution in accordance with Civil Code section 1363.810 et seq. The limitations on the use of foreclosure remedies set forth in this subparagraph (D) do not apply to assessment collection actions against the Declarant in its capacity as an Owner when the Declarant's Assessment obligations are delinquent.

(viii) Foreclosed Owner's Rights of Redemption. A non-judicial foreclosure by the Association of an Owner's interest in his or her Condominium Unit to collect a debt for delinquent Assessments shall be subject to a right of redemption. The redemption period within which the Condominium Unit may be redeemed from a foreclosure sale under this subparagraph (viii) (which reflects Civil Code section 1367.4(c)(4)) ends ninety (90) days after the sale. In addition to the requirements of Civil Code section 2924f, a notice of sale in connection with the Association's foreclosure of a Condominium Unit in the Project shall include a statement that the property is being sold subject to the right of redemption created by Civil Code section 1367.4(c)(4).

(ix) Limitation on Authority to Use Lien and Foreclosure Remedies to Collect Special Individual Assessments. For so long as any Condominium Units in the Project are being sold under authority of a Department of Real Estate Public Report, a Special Individual Assessment or other monetary charge imposed by the Association: (A) as a means of reimbursing the Association for costs incurred by the Association in the repair of damage to Common Area improvements or landscaping for which the Member or the Member's guests or tenants were responsible; or (B) as a disciplinary measure for failure of a Member to comply with the Governing Documents (except for reasonable late payment penalties, interest, and other reasonable costs of collection authorized by Civil Code section 1366) may not be characterized nor treated as an Assessment that may become a lien against the Owner's Condominium Unit enforceable by the sale of the interest under Civil Code sections 2924, 2924(b) and 2924(c).

Once the Association is no longer subject to the regulatory jurisdiction of the Department of Real Estate, the following categories of Special Individual Assessments may be collected through the use of lien and foreclosure remedies in accordance with subparagraphs (v) through (viii), above: (A) Special Individual Assessments or other monetary charges imposed by the Association as a means of reimbursing the Association for costs incurred in the repair of damage to Common Areas and Common Facilities for which the Member or the Member's guests or tenants were responsible; and (B) Special Individual Assessments imposed to recover late charges, reasonable costs of collection and interest assessed in accordance with Civil Code section 1366(e).

(x) Obligation to Record Lien Releases. If it is determined that a lien previously recorded against a Condominium Unit was recorded in error, the party who recorded

the lien, within twenty-one (21) calendar days, shall record or cause to be recorded in the Office of the County Recorder a lien release or notice of rescission and provide the Unit Owner with a declaration that the lien filing or recording was in error and a copy of the lien release or notice of rescission. If the determination that the lien was recorded in error is the result of dispute resolution meet and confer proceedings conducted pursuant to Civil Code section 1363.810 or alternative dispute resolution with a neutral third-party pursuant to Civil Code section 1369.510, the Association shall also be obligated to promptly reverse all late charges, fees, interest, attorney's fees, costs of collection, costs imposed for the issuance of the notices prescribed by Civil Code section 1367.1, and costs of recording the lien release and all costs incurred in the mediation or alternative dispute resolution process.

In addition, within twenty-one (21) days of the payment of the sums specified in the Notice of Delinquent Assessment, the Association shall record or cause to be recorded in the Office of the County Recorder a lien release or notice of rescission and provide the Unit Owner with a copy of the lien release or notice that the delinquent Assessment has been satisfied.

(xi) Effect of Failure to Adhere to Statutory Lien and Foreclosure Procedures. If the Association fails to comply with the notice and other pre-lien procedures set forth in this Section 4.10(b) and California Civil Code sections 1367.1 and 1367.4 prior to recording a lien, the Association shall recommence the required notice process prior to recording a lien. Any costs associated with recommencing the notice process shall be borne by the Association and not by the Unit Owner.

The provisions of this Section 4.10(b) are intended to comply with the requirements of Civil Code sections 1367.1, 1367.4 and 1367.5, as in effect on the date that this Declaration is recorded in the Official Records of San Luis Obispo County, California. If these sections of the Civil Code are amended or modified in the future in a way that is binding on the Association and causes this Section to be in conflict with applicable law, the provisions of this Section 4.10(b) automatically shall be amended or modified in the same manner by action of the Board of Directors without necessity of approval of the amendment by the Members so long as all Members are given a copy of the recorded amendment and the decision to approve the amendment is made at a duly noticed open meeting of the Board of Directors.

Section 4.11. Transfer of Condominium Unit by Sale or Foreclosure. The following rules shall govern the right of the Association to enforce its Assessment collection remedies following the sale or foreclosure of a Condominium Unit:

(a) Except as provided in subparagraph (b), below, the sale or transfer of any Condominium Unit shall not affect any Assessment lien which has been duly Recorded against the Condominium Unit prior to the sale or transfer, and the Association can continue to foreclose its lien in spite of the change in ownership.

(b) The Association's Assessment lien shall be extinguished as to all delinquent sums, late charges, interest and costs of collection incurred prior to the sale or transfer of a Condominium Unit pursuant to a foreclosure or exercise of a power of sale by the holder of a prior encumbrance (but not pursuant to a deed-in-lieu of foreclosure). A "prior encumbrance"

means any first Mortgage or other Mortgage or lien Recorded against the Condominium Unit at any time prior to Recordation of the Association's Assessment lien (see Section 4.12, below).

(c) No sale or transfer of a Condominium Unit as the result of foreclosure, exercise of a power of sale, or otherwise, shall relieve the new Owner of such Condominium Unit (whether it be the former beneficiary of the first Mortgage or other prior encumbrance or a third party acquiring an interest in the Condominium Unit) from liability for any Assessments which thereafter become due with respect to the Condominium Unit or from the lien thereof.

(d) Any Assessments, late charges, interest and associated costs of collection which are lost as a result of a sale or transfer of a Condominium Unit covered by subparagraph (b), above, shall be deemed to be a Common Expense collectible from the Owners of all of the Condominium Units, including the person who acquires the Condominium Unit and his or her successors and assigns.

(e) No sale or transfer of a Condominium Unit as the result of foreclosure, exercise of a power of sale, or otherwise, shall affect the Association's right to maintain an action against the foreclosed previous Owner personally to collect the delinquent Assessments, late charges, interest and associated costs of collection incurred prior to and/or in connection with the sale or transfer.

Section 4.12. Priorities. When a Notice of Delinquent Assessment has been Recorded, such notice shall constitute a lien on the subject Condominium Unit prior and superior to all other liens recorded subsequent to the Notice of Delinquent Assessment except: (a) all taxes, bonds, assessments and other levies which, by law, would be superior thereto; and (b) the lien or charge of any first Mortgage of record (meaning any Recorded Mortgage with first priority over other Mortgages) made in good faith and for value; provided, however, that such subordination shall apply only to the Assessments which have become due and payable prior to the transfer of such property pursuant to the exercise of a power of sale or a judicial foreclosure involving a default under such first Mortgage or other prior encumbrance.

Section 4.13. Unallocated Taxes. In the event that any taxes are assessed against the Common Area, or the personal property which is owned by the Association, rather than being assessed to the individual Condominium Units, such taxes shall be included in the Regular Assessments imposed pursuant to Section 4.02, above, and, if necessary, a Special Assessment may be levied against the Units in an amount equal to such taxes to be paid in two installments, thirty (30) days prior to the due date of each tax installment.

Section 4.14. Personal Charges.

(a) Personal Charges are not Assessments and the remedies available to the Association against any Owner of a Vacation Rental Unit for nonpayment of such Owner's Personal Charges are limited to a civil court action.

(b) Personal Charges shall be paid by each Owner as follows:

(i) If the Manager is able to determine the amount of Personal Charges at Check-Out Time (for example, Personal Charges constituting long distance telephone charges,

optional housekeeping service, etc.), such Personal Charges shall be payable at the termination of the Owner's Use Period, unless the Board elects to establish credit accounts for Owners of Vacation Rental Units pursuant to the Association Rules.

(ii) Personal Charges which are not ascertainable at the time of termination of an Owner's Use Period shall be payable as determined by the Board.

(iii) Each Owner of a Vacation Rental Unit is responsible for the expenses of his or her Permitted Users. Although the Association shall attempt to collect any items that would otherwise constitute Personal Charges of an Owner of a Vacation Rental Unit had such Owner been the occupant of the Owner's Unit, any such Personal Charges not so paid by the Permitted Users of an Owner of a Vacation Rental Unit shall be Personal Charges of that Owner.

ARTICLE V
ARCHITECTURAL RESTRICTIONS

Section 5.01. Prohibition on Alteration of Vacation Rental Units and Furnishings. Except as provided in Section 5.02, below, no Owner of a Vacation Rental Unit shall make or authorize any alterations, additions or improvements to any portion of the Project, including, but not limited to, the Common Area, the improvements, landscaping, or any personal property thereon, or paint, repaint, tile, paper or otherwise refinish or redecorate the inner surfaces of the walls, ceilings, floors, windows or doors bounding any Vacation Rental Unit, or remove, alter or replace any portion of the Residential Common Furnishings without the prior written consent of the Association Board. The right to perform all of the foregoing acts, with respect to the project and the Residential Common Furnishings, has been delegated to the Association by this Declaration. The foregoing prohibitions, however, shall not modify or affect the obligation of each Owner for the prudent care and ordinary maintenance and upkeep of all property that is subject to his or his Permitted User's use.

Section 5.02. Alterations or Improvements Associated With Disabilities. A physically impaired Owner may make modifications to the Owner's Unit upon approval of the Board of Directors, in accordance with the terms, conditions and restrictions set forth in section 1360 of the Civil Code, as that section may be amended from time to time.

ARTICLE VI
ASSOCIATION AND OWNER MAINTENANCE RESPONSIBILITIES

Section 6.01. Unit Owner's Rights and Duties with Respect to Interiors. The maintenance and repair of the Vacation Rental Units shall be undertaken by the Association at the expense of the Owners of the Vacation Rental Units in conformance with the provisions of this Declaration.

Section 6.02. Responsibility of the Association.

(a) The Association shall be responsible for maintaining, repairing and keeping in good repair and condition all Vacation Rental Units and any appurtenant Exclusive Use Common Areas within the Project. The Association has the right, in its sole discretion and without the approval of the Owners of Vacation Rental Units, to maintain, repair, alter, rearrange, improve, remove, substitute and replace any or all of the Exclusive Use Common Areas appurtenant to the Vacation Rental Units from time to time. The Association shall be responsible for maintaining and repairing Exclusive Use Common Areas appurtenant to the Vacation Rental Units, the expense of which shall be the responsibility of the Owners of the respective Vacation Rental Units to which the Exclusive Use Common Areas are appurtenant. The Association shall have the responsibility for maintenance of:

(i) The interior of each Vacation Rental Unit, the costs for maintaining, repairing, and replacing of which is a Common Expense of the Association.

(ii) All incidental damage caused to a Vacation Rental Unit by reason of maintenance, repair, and replacement accomplished pursuant to the provisions of this Section 6.02.

(b) The responsibility of the Owner of Vacation Rental Units for maintenance, repair and replacement shall be as follows:

(i) To refrain from painting or otherwise decorating or changing the appearance of any portion of the Vacation Rental Unit without the prior written approval of the Association.

(ii) To promptly report to the Association any defect or need for repairs for which the Association is responsible.

(iii) To bear in their entirety any expenses of repairs or replacements to the Vacation Rental Units occasioned by the specific use or abuse by the Owner of the Vacation Rental Unit or any licensee, guest, or tenant of the Owner.

(iv) To do nothing within or outside the Owner's Vacation Rental Unit that interferes with or impairs, or may interfere with or impair, the provision of utility services, security systems, or other service or drainage facilities or the use of these easements.

Section 6.03. The Association's Access to the Vacation Rental Units. The Association has the irrevocable right of access to each Vacation Rental Unit whenever necessary for: (i) inspecting, maintaining, replacing, or operating the Project; (ii) making emergency repairs necessary to prevent damage to any Unit or Common Areas, or (iii) responding to or investigating any emergency or threat of same and taking such action as the Association may deem necessary or appropriate under the circumstances.

Section 6.04. Maintenance Weeks. The Association shall have the right to reserve at least one week per year per Vacation Rental Unit for maintenance purposes.

Section 6.05. Association Recovery of Costs of Certain Repairs and Maintenance. If the need for maintenance or repair, which would otherwise be the Association's responsibility hereunder is caused through the willful or negligent acts of an Owner, his or her family, guests, tenants, or invitees, and is not covered or paid for by Association insurance policies or any liability insurance maintained by the responsible Owner, the cost of such maintenance or repairs shall be subject to recovery by the Association through the imposition of a Special Individual Assessment against the offending Owner in accordance with Section 4.04, above.

ARTICLE VII
USE OF UNITS AND COMMON AREAS AND RESTRICTIONS

In addition to such restrictions as may be established by law or made a part of the Association Rules (consistent with this Declaration) from time to time promulgated by the Board of Directors, the following restrictions are hereby imposed upon the use and enjoyment of the Project (including, without limitation, the individual Units):

Section 7.01. Personal Use Restriction for Vacation Rental Units. Except for Vacation Rental Units owned or leased by the Declarant each of the Vacation Rental Units shall be occupied only as vacation accommodations by Owners, their tenants, invitees and guests in accordance with Section 2.03, above. Use of the Vacation Rental Units is limited solely to the personal use of Owners, their guests, invitees and lessees of Vacation Rental Units, subject at all times to the covenants and restrictions set forth in this Declaration and the Association Rules.

Section 7.02. Declarant's Use of Vacation Rental Units. The Declarant may make such use of the Project and the Vacation Rental Units that are owned by the Declarant as may facilitate the sale of Vacation Rental Units, including, but not limited to, showing of the property and the display of signs and other promotional devices. Further, the Declarant reserves the right to lease or rent on a long or short-term basis unsold Vacation Rental Units.

Section 7.03. Decoration of Units. No Owner of a Vacation Rental Unit shall alter the furniture, furnishings, appliances, house wares, personal property or decor of any such Unit without the prior written consent of the Association's Board of Directors or the Managing Agent. The Association shall determine the interior color scheme, decor and furnishings of each Vacation Rental Unit as well as the proper time for redecorating and renovating such Vacation Rental Unit and its contents. Only the following window coverings, visible from the exterior of the Building, may be installed: curtains, drapes, shades, and blinds (including mini-blinds), subject to the prior approval of the Association.

Section 7.04. Right of Occupancy - Holdover Owners. In the event any Owner of a Vacation Rental Unit fails to vacate his or her Unit at the expiration of any reserved occupancy period, as may be required by the rules and regulations governing occupancy of such Vacation Rental Unit, the Owner shall be deemed a "holdover Owner." It shall be the responsibility of the Association to take such steps as may be necessary to remove such holdover Owner from the Vacation Rental Unit, and to assist the holder of any subsequent reservation who may be affected by the holdover Owner's failure to vacate, in finding alternate accommodations during such

holdover period. In the event of an Owner holdover, the Association shall have the following rights and remedies available to it:

(a) In addition to such other remedies as may be available to it, the Association shall have the right, but not the obligation, to secure, at its initial expense, alternate accommodations for any holder of a subsequent reservation that may be denied occupancy of the Vacation Rental Unit due to the failure to vacate of any holdover owner. Such accommodations shall be as near in value as possible to the Vacation Rental Unit that was reserved and yet was rendered unavailable by the actions of the holdover Owner. The holdover Owner shall be charged for the cost of such alternate accommodations, any other costs incurred due to the holdover Owner's failure to vacate, and an administrative fee as determined by the Association Board during this period of holding over. In the event it is necessary that the Association contract for a period greater than the actual period of holding over in order to secure alternate accommodations as set forth above, the entire period shall be the responsibility of the holdover Owner, although the administrative fee shall cease upon actual vacating by the holdover Owner.

(b) The Association shall submit a bill to the holdover Owner in accordance with this Section. Before the Association may levy a fine against a party for violation of any of the provisions of the Governing Documents, the Association must afford the party reasonable notice of the levy and a right to a hearing as may be required under California law.

(c) The foregoing provisions shall not abridge the Association's right to take such other action against a holdover Owner as is permitted by law including, but not limited to, eviction proceedings. Further, the foregoing provisions shall not limit the Association's right to take any action permitted by California law against trespassers who are not Vacation Rental Unit Owners.

(d) The Association shall have a lien against such holdover Owner's interest in the Unit to secure payment of such costs, charges, fees and expenses, including, but not limited to, reasonable attorneys' fees and costs incurred in connection with such holdover Owner.

Section 7.05. Prohibition of Noxious Activities. No obnoxious or offensive activity or conduct shall be carried on within any portion of the Project nor shall anything be done therein or thereon which may or would become an annoyance or nuisance to other Owners or occupants. No Unit shall be used for any trade, business or other commercial activity or solicitation except as expressly permitted by this Declaration. Except as expressly permitted by this Declaration, no Owner shall cause or permit the display of any sign or advertising matter within any Vacation Residence Unit or any other portion of the Project. Without limiting the foregoing, noxious activities shall include excessive noise within a Unit that causes unreasonable disturbance to other occupants of Units in the Building.

Section 7.06. Compliance With Laws. No Owner or his or her Permitted User shall permit anything to be done or kept in the Owner's Unit or within any other portion of the Project which violates any law, ordinance, statute, rule or regulation of any local, county, state or federal government or agency thereof.

Section 7.07. No Increased Insurance. Nothing shall be done or kept within any other portion of the Project which will increase the rate of insurance on the Project and/or the Property without the prior written consent of the Association's Board of Directors. No Owner shall permit anything to be done or kept in his or her Unit, or do or place anything elsewhere in the Project, which would result in the cancellation of insurance for the Project, or any portion thereof.

Section 7.08. Maintenance of Pets in the Project. Due to the Project's status as a condominium hotel, Owners, guests and tenants are not encouraged to bring any pets to the Project. However, in accordance with Civil Code section 1360.5, Owners (i.e., this right does not extend to tenants, guests or invitees who occupy Vacation Rental Units) shall be entitled to keep one dog, or one cat, or one domesticated bird, or aquatic fish or other animals in an aquarium in the Owner's Vacation Rental Unit during the Owner's occupancy of the Unit. Should a permitted pet deposit any waste in any portion of the Common Areas of the Project the pet owner shall immediately dispose of the waste. The Board of Directors shall have the right to establish and enforce additional rules and regulations for the reasonable control and keeping of permitted pets in, upon and around the Project to ensure that the same do not interfere with the quiet and peaceful enjoyment of the Project by other Owners and guests of the Project..

Section 7.09. Signs. No advertising signs or billboards shall be displayed on the exterior of any Unit or posted within or upon any portion of the Common Area except that Owners may post in front window of the Owner's Unit any signs required by legal proceedings and a single "For Rent," "For Lease" or "For Sale" sign of reasonable dimensions. Signs permitted hereunder shall not be nailed to the exterior of the Project Building.

Section 7.10. Garbage and Refuse Disposal. All rubbish, trash, or garbage shall be regularly removed from the Project, and shall not be allowed to accumulate within any Unit or in any portion of the Common Area, including, without limitation, any hallways, corridors, stairs, or lobby areas of the Building. Trash, garbage and other waste that is customary and incidental to the use of a residential resort Condominium shall be maintained in sanitary containers within the Owner's Unit. All containers and equipment for the storage or disposal of garbage and waste materials shall be kept in a clean and sanitary condition. The Association shall be responsible for arranging for the removal from the Project of refuse generated by the Unit Owners and their guests, tenants and invitees. The Association shall be entitled to impose reasonable fines and penalties for the collection of garbage and refuse disposed in a manner inconsistent with this Section and the Association Rules.

Section 7.11. Storage. Storage of personal property by Owners or tenants within the Project shall only be permitted entirely within the Owner's/tenant's Unit or in other designated storage areas within the Project, if any.

Section 7.12. Barbecues. There shall be no exterior fires whatsoever, including barbeque fires.

Section 7.13. Machinery and Equipment. No power tools, machinery or equipment of any kind shall be placed, operated or maintained within or adjacent to any Unit except such machinery or equipment as is usual or customary in connection with the use, maintenance or repair of a private residence located within a condominium project.

Section 7.14. Diseases and Pests. No Owner shall permit any thing or condition to exist within his or her Unit which shall induce, breed, or harbor infectious plant diseases, rodents or noxious insects.

Section 7.15. Parking and Vehicle Restrictions.

(a) The parking area on the first floor of the Project Building shall be maintained in a neat and orderly condition. The marked parking spaces on the first floor of the Building are to be used for the parking of standard passenger vehicles and trucks not to exceed three-quarter tons in gross carrying capacity. Parking spaces are not to be used for the parking of boats, trailers or personal property of any owner or tenant. Only the Owner of Unit 15 has a right to the use of two parking spaces as Exclusive Use Common Area appurtenant to that Unit, all as more particularly shown on the Condominium Plan.

(b) No motor vehicle shall be constructed, reconstructed or repaired within the Project and no dilapidated or inoperable vehicle, including vehicles without wheel(s) or an engine, shall be stored in the Project; provided, however that the provisions of this Section shall not apply to emergency vehicle repairs that can be completed within a short time.

(c) The Board shall have the authority to tow at the Owner's expense, any vehicle parked or stored within any portion of the Project in violation of this Section. The Board shall post such notices or signs within the Building Common Area as may be required by law to effectuate this towing provision.

Section 7.16. Activities Affecting Insurance. Nothing shall be done or kept within any Unit or Exclusive Use Common Area or Common Area which will increase the rate of insurance relating thereto without the prior written consent of the Association and no Owner shall permit anything to be done or kept within his or her Unit, Exclusive Use Common Area or Common Area which would cause any Improvements to be uninsurable against loss by fire or casualty or result in the cancellation of insurance on any Unit or any part of the Common Area.

Section 7.17. Waiver of Right of Partition. No action for partition of any Unit from the Project shall lie. Notwithstanding such limitation, if any Unit is owned by two (2) or more persons as tenants-in-common or as joint tenants, nothing herein contained shall prohibit a judicial sale of such Unit in lieu of partition as between such co-tenants or joint tenants.

Section 7.18. Responsibility of the Association.

(a) The Association shall be responsible for maintaining, repairing and keeping in good repair and condition all Vacation Rental Units and any appurtenant Exclusive Use Common Areas. The Association has the right, in its sole discretion and without the approval of the Owner of a Vacation Rental Units, to maintain, repair, alter, rearrange, improve, remove, substitute and replace any or all of the Exclusive Use Common Areas appurtenant to the Vacation Rental Units from time to time. The Association shall be responsible for maintaining and repairing Exclusive Use Common Areas appurtenant to the Vacation Rental Units, the expense of which shall be the responsibility of the Owners of Vacation Rental Units to which the Exclusive Use Common Areas are appurtenant. The Association shall have the responsibility for maintenance of:

(i) The interior of each Vacation Rental Unit, the costs for maintaining, repairing, and replacing of which is a Association Common Expense.

(ii) All incidental damage caused to a Vacation Rental Unit by reason of maintenance, repair, and replacement accomplished pursuant to the provisions of this Section 7.17.

(b) The responsibility of the Owner of a Vacation Rental Unit for maintenance, repair and replacement shall be as follows:

(i) To not paint or otherwise decorate or change the appearance of any portion of the Vacation Rental Unit without the prior written approval of the Association.

(ii) To promptly report to the Association any defect or need for repairs for which the Association is responsible.

(iii) To bear in their entirety any expenses of repairs or replacements to the Vacation Rental Units occasioned by the specific use or abuse by the Owner of a Vacation Rental Unit or any licensee, guest, or tenant of the Owner of a Vacation Rental Unit.

(iv) To do nothing within or outside the Owner of a Vacation Rental Unit's Vacation Rental Unit that interferes with or impairs, or may interfere with or impair, the provision of Utility Services, security systems, or other service or drainage facilities or the use of these easements.

Section 7.19. Association's Access to Units. The Association has the irrevocable right of access to each Vacation Rental Unit whenever necessary for: (i) inspecting, maintaining, replacing, or operating the Project; (ii) making emergency repairs necessary to prevent damage to any Unit or Common Areas, or (iii) responding to or investigating any emergency or threat of same and taking such action as the Association may deem necessary or appropriate under the circumstances. To these ends, any Manager retained by the Association shall, required by the Board, retain a key to each Vacation Rental Unit or retain a pass key to all Units. No Owner shall install any additional lock in, or alter any lock in, any door to his or her Unit or in any other portion of the Project without the consent of the Board; provided, however, that the Board may condition the granting of such consent to such Owner upon receipt by the Association of a key to each new or altered lock with respect to which the Owner desires the consent of the Board.

Section 7.20. Maintenance Weeks. The Association shall have the right to reserve at least one week per year per Vacation Rental Unit for maintenance purposes.

ARTICLE VIII
EASEMENTS

Section 8.01. Encroachment Easements. Each Unit is hereby declared to have an easement over adjoining Units and Common Area for the purpose of accommodating any encroachment due to roof overhang and fences or walls which are built in accordance with the original design, plans and specifications of Declarant, and due to engineering errors, errors in original construction, settlement or shifting of the building, or similar causes. There shall be valid easements for the maintenance of said encroachments as long as they shall exist, and the rights and obligations of the Owner shall not be altered in any way by said encroachment, settlement or shifting; provided, however, that in no event shall a valid easement for encroachment be created in favor of an Owner or Owners if said encroachment occurs due to the willful misconduct of said Owner or Owners. In the event a structure is partially or totally destroyed, and is repaired or rebuilt, the Owners of each adjoining Unit agree that minor encroachments over adjoining Units shall be permitted and that there shall be valid easements for the maintenance of said encroachments so long as they shall exist.

Section 8.02. Utility Easements Granted by Association. Declarant or the Association shall have the power to grant and convey to any third-party easements and rights-of-way in, on, over or under the streets and Common Area for the purpose of constructing, erecting, operating or maintaining lines, cables, wires, conduits, or other devices for electricity, cable television, power, telephone and other purposes, public sewers, storm water drains and pipes, water systems, sprinkling systems, water, heating and gas lines or pipes, and any similar public or quasi-public Improvements or facilities, subject to prior written approval thereof by the County. Each Owner, in accepting a deed to a Condominium, expressly consents to such easements and rights of way and authorizes and appoints the Association as attorney-in-fact of such Owner to execute any and all instruments conveying or creating such easements or rights-of-way. An easement is hereby created and reserved for installation, maintenance and use of horizontal and vertical utility lines, ducts and appurtenances thereto in areas adjoining ceilings, walls, columns and interior spaces between columns, within the Units. No removal, repair or modification of these lines is permitted without specific written authorization from the Association.

Section 8.03. Easement for Management, Operation, Maintenance, Use and Repair. The Association, for itself, its successors and assigns, and its and their agents, employees, contractors, subcontractors, and other authorized personnel, shall have the right and is hereby granted, for so long as the Association or its successors and assigns shall be required hereunder to manage and maintain the Project, an exclusive easement in gross in, over and through the Project for the management, operation, repair and maintenance of the Project and the Residential Common Furnishings and the administration and operation of the Project; provided, however, that use of such easement shall not (1) unreasonably interfere with or diminish the rights of Owners and Permitted Users, or the Declarant to occupy the Project and to use the Residential Common Furnishings, or (2) interfere with the occupancy of Units by the Declarant. In amplification and not in limitation thereof, the Association and its successors and assigns shall have the right during Maintenance Periods and upon giving reasonable notice if a Vacation Rental Unit is occupied, to enter such Unit for the purpose of clearing, housekeeping service, painting, maintenance and repair, and at any reasonably necessary time, whether or not in the presence of the Owner thereof, to enter upon any Residence for the purpose of (1) making

emergency repairs therein, (2) abating any nuisance or any dangerous, unauthorized, prohibited or unlawful activity being conducted or maintained in any Vacation Rental Unit, (3) protecting property rights and welfare of any Owner or Permitted User or (4) for any other purpose reasonably related to the performance by the Association of its duties and obligations under the terms of this Declaration. Such right of entry shall be exercised in such a manner as to avoid any unreasonable or unnecessary interference with the possession, use and enjoyment of the rightful occupancy of a Vacation Rental Unit and shall be preceded by reasonable notice to such occupant whenever the circumstances permit.

Section 8.04. Easement for Rental of Vacation Rental Units by the Association. The Association, for itself, its successors and assigns, and its and their agents, employees, contractors, subcontractors and other authorized personnel, shall have the right and is hereby granted, a non-exclusive easement in gross in, over and through the Vacation Rental Units and the Residential Common Areas for the purpose of renting the Vacation Rental Units to the general public. All such rental revenue shall inure to the benefit of the Association; provided, however, that at no time shall the Board collect sufficient rental revenues to risk the nonprofit status of the Association, or to create the expectation by any Owner that such rental revenues will significantly reduce such Owner's Assessment obligations. No rental activity conducted by the Association hereunder or by any individual Owner for his or her own account shall involve participation in any rental pool wherein the revenues and expenses of the rental operation would be shared among the participants, and such rental pool arrangements shall be absolutely prohibited under this Declaration.

Section 8.05. Easement for Sales, Resales, Customer Service and Related Purposes. The Declarant, for itself and its successors, assigns, agents, employees, contractors, subcontractors and other authorized personnel, reserves, for a period commencing on the Recordation date of this Declaration and terminating upon the sale of the last Vacation Rental Unit owned by the Declarant an exclusive easement in gross in, over and through the Project, for the purposes of (i) marketing and selling the Vacation Rental Units; (ii) maintaining customer relations and providing post-sales service to Owners; (iii) displaying signs and erecting, maintaining, and operating, for sales and administrative purposes, model Units and a customer relations, customer service and sales office complex in the Project; and (iv) showing the Vacation Rental Units still owned by the Declarant; provided, however, that use of such easement shall not (i) interfere with or diminish the rights of Owners to use and occupy their Vacation Rental Units; or (ii) interfere with the use and occupancy of the Project and the Residential Common Area by the Association as reasonably required for the Association to administer the Project or perform its other obligations hereunder, all as provided in this Declaration and the Rules and Regulations.

Section 8.06. Other Easements. Each Condominium Unit and its Owner, the Association and Declarant, as the case may be, is hereby declared to be subject to all the easements, dedications and rights-of-way granted or reserved in, on, over and under the Project and each Unit as shown on the Subdivision Map and/or the Condominium Plan.

Section 8.07. Priority of Easements. Wherever easements granted to the City are, in whole or in part, coterminous with any other easements, the easements of the City shall have and are hereby granted priority over said other easements in all respects.

ARTICLE IX
INSURANCE

Section 9.01. Types of Insurance Coverage. The Association shall, at the discretion of the Board of Directors, purchase, obtain and maintain, with the premiums therefor being paid out of Common Funds, the following types of insurance, if and to the extent they are available at a reasonable premium cost:

(a) Fire and Casualty Insurance. The Association shall obtain and maintain a master or blanket policy of fire and casualty insurance, written on all risk, replacement cost basis, on all Improvements within the Project and on any Common Areas and Common Facilities providing coverage against loss or damage to the Project and the Residential Common Furnishings, including, without limitation, machinery used in the service of the Project, by fire and other risks and hazards customarily covered by an insurance policy written on an all risk basis, including, to the extent available at a reasonable cost, earthquakes and environmental risks. The stipulated amount of such insurance shall be based un the full replacement cost thereof at the time and place of loss, and the Association shall either (a) annually update such stipulated full replacement cost amount to reflect the then-current estimated full replacement cost thereof, or (b) procure and maintain an endorsement which provides for full reimbursement for the actual cost of repair or replacement thereof, without deduction for depreciation.

(b) Theft Insurance. The Association shall obtain and maintain insurance against hazards such as burglary and theft covering the Residential Common Furnishings and to the extent available at a reasonable cost, the personal property within the Project owned by any Owner, Permitted User or in the possession of the Association, its agents or employees.

(c) Business Interruption Insurance. To the extent available at a reasonable cost, the Association shall obtain and maintain insurance against loss in the operation of the Project of earnings, continuing charges and expenses, and such other risks and hazards customarily covered by business interruption insurance policies. Such business interruption insurance shall be combined with insurance against loss due to extra expenses arising out of operating the Project and the cost of temporary quarters for Owners and other Permitted Users due to damage to, or inhabitability of, the Project or Residential Common Furnishings and such other risks and hazards customarily covered by such extra expense insurance policies.

(d) Public Liability and Property Damage Insurance The Association shall obtain and maintain Insurance against loss or liability due to injury to, or destruction of personal property belonging to Owners, Permitted Users and Exchange Users while located in the Private Residence Club Project, including without limitation loss due to claims for bodily injury, death and property damage with a combined single limit liability with regard thereto of not less than One Million Dollars ($1,000,000.00) per occurrence, The Association shall also procure and maintain one or more umbrella liability insurance policies against loss or damage due to claims for personal injury, death and property damage with a limit with regard thereto of not less than Five Million Dollars ($5,000,000.00) per occurrence.

(e) Directors' and Officers' Liability Insurance. To the extent available at a reasonable cost, the Association shall obtain and maintain directors' and officers' liability insurance, Workers' Compensation Insurance and any other insurance deemed necessary or desirable by the Association. Such other policies of insurance shall cover such risks, be written by such insurers, and be in such amounts as the Association shall deem necessary and proper under the circumstances. The Association shall cause to be covered by a fidelity bond or insurance providing for a blanket crime endorsement, any employee or agent of the Manager or the Association who may have charge of funds of any Owner, Permitted User, Exchange User or of the Association. The loss coverage under any such bond or policy shall not be less than the maximum amount of funds of the Association over which the principals under the bond or policy may reasonably be expected to have control or access at any time.

(f) Additional Insurance and Bonds. To the extent such insurance is reasonably obtainable, the Association may also purchase with Common Funds such additional insurance and bonds as it may, from time to time, determine to be necessary or desirable, including, without limiting the generality of this section, demolition insurance, flood insurance, and workers' compensation insurance. The Board shall also purchase and maintain fidelity bonds or insurance in an amount not less than one hundred (100%) percent of each year's estimated annual operating expenses and shall contain an endorsement of any person who may serve without compensation.

All insurance policies obtained by the Association hereunder shall name all Owners (as a class) and Declarant (individually) as additional insureds. Liability insurance shall contain appropriate waivers of subrogation against any Owner or member of such Owner's household, and a provision that no act or omission by an Owner, unless acting within the scope of his authority on behalf of the Association, will void the policy or operate as a condition to recovery by any ether person under such policy.

Section 9.02. Coverage Not Available. In the event any insurance policy, or any endorsement thereof, required by Section 9.01, above, is for any reason not available, then the Association shall obtain such other or substitute policy or endorsement as may be available which provides, as nearly as possible, the coverage hereinabove described. The Board shall notify the Owners of any material adverse changes in the Association's insurance coverage.

Section 9.03. Copies of Policies. Copies of all insurance policies (or certificates thereof showing the premiums thereon have been paid) shall be retained by the Association and shall be available for inspection by Owners at any reasonable time.

Section 9.04. Condominium Owners' Property Insurance; Limitations. No Owner shall separately insure his or her Condominium against loss by fire or other casualty covered by any insurance carried by the Association. If any Owner violates this provision, any diminution in insurance proceeds otherwise payable under the Association's policies that results from the existence of such other insurance will be chargeable to the Owner who acquired other insurance as a Special Individual Assessment. The insurance maintained by the Association does not cover the personal property in any Condominium Unit and does not cover personal liability for damages or injuries occurring in the Units. Each Owner of a Condominium shall maintain property insurance against losses to personal property located within the Owner's Unit and

liability insurance against any risk or liability resulting from any injury or damage occurring within the Unit or within any Exclusive Use Common Area that is appurtenant solely to the insuring Owner's Unit.

In addition, any improvements or upgrades made by an Owner within his or her Unit may be separately insured by the Owner, but the insurance is to be limited to the type and nature of coverage commonly known as "improvements insurance". Owners shall not obtain such improvements insurance if the policy referred to in Section 9.01(a), above, will provide coverage for such improvements or upgrades. Any insurance maintained by a Condominium Owner must contain a waiver of subrogation rights by the insurer as to the other Owners, the Association, and any first Mortgagee of the Owner's Unit.

Section 9.05. Restriction on Cancellation of Insurance. All of the policies of insurance maintained by the Association pursuant to Section 9.01, above, shall contain a provision that such policy or policies shall not be cancelled or terminated, or expired by their terms, or not renewed without sixty (60) days prior written notice to the Board, the Owners and their respective first Mortgagees (provided that such Owners or Mortgagees have filed written requests with the carrier for such notice) and every other Person in interest who shall have requested such notice of the insurer.

Section 9.06. Board's Authority to Revise Insurance Coverage. Subject to the provisions of Section 9.07 and to compliance with the minimum insurance requirements imposed by Civil Code sections 5800 and 5805 (see Section 3.10, subparagraphs (b) and (c), above), the Board shall have the power and right to deviate from the insurance requirements contained in this Article IX in any manner that the Board, in its discretion, considers to be in the best interests of the Association.

The Board is authorized to negotiate and agree on the value and extent of any loss under any policy carried by the Association, including, but not limited to, the right and authority to compromise and settle any claim or enforce any claim by legal action or otherwise and to execute releases in favor of any insurer.

Each Owner, by acceptance of a deed to a Condominium, irrevocably appoints the Association or the Insurance Trustee as that Owner's attorney-in-fact for purposes of procuring, negotiating, accepting, compromising, releasing, settling, distributing and taking other related actions in connection with any insurance policy maintained by the Association and any losses or claims related thereto and agrees to be bound by the actions so taken as if the Owner had personally taken the action.

Section 9.07. Periodic Insurance Review. The Board periodically (and not less than once every three (3) years) shall review the Association's insurance policies and make such adjustments to the policies' terms and conditions as the Board considers to be in the best interests of the Association. If applicable, the review shall include an appraisal by a qualified appraiser of the current replacement costs of all covered property under the Association's property insurance policy unless the Board is satisfied that the current dollar limit of the property insurance policy, coupled with the amount of actual reserves on hand, is equal to or greater than the current replacement costs.

Section 9.08. Required Notifications to Owners Regarding Insurance.

(a) Annual Notice Requirements. The Association shall provide its Members with a summary of the Association's property, general liability, earthquake, flood, and fidelity insurance policies not less than thirty (30) nor more than ninety (90) days prior to the beginning of the Association's fiscal year, that includes all of the following information about each policy: (i) the name of the insurer; (ii) the type of insurance; (iii) the policy limits of the insurance; and (iv) the amount of deductibles, if any, to the extent that any of the information required to be included in the annual insurance disclosure is included in the insurance policy declaration page, the Association may meet its obligation to disclose that information by making copies of that page and distributing the page to its Members. The annual insurance summary shall also contain a statement, in at least 10-point bold face type that states as follows: "This summary of the Association's policies of insurance provides only certain information, as required by Civil Code section 1365(e) and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association Member may, upon request and provision of reasonable notice, review the Association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property, or, real property improvements to or around your Unit, or personal injuries or other losses that occur within or around your Unit. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association Members should consult their individual insurance broker or agent for appropriate additional coverage."

(b) Notice of Cancellation of Insurance. The Association shall, as soon as reasonably practicable, notify its Members by first-class mail if any of the policies described in subparagraph (a), above, have lapsed, been canceled, and are not immediately renewed, restored, or replaced, or if there is a significant change, such as a reduction in coverage or policy limits or an increase in the deductible for any policy. If the Association receives any notice of non-renewal of a policy described in subparagraph (a), above, the Association shall immediately notify its Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

Section 9.09. Limitation on Liability Regarding Insurance Matters. The Association and its directors and officers, shall have no liability to any Owner or Mortgagee if, after a good faith effort, the Association is unable to obtain the insurance required hereunder because the insurance is no longer available or, in the alternative, can be obtained only at a cost that the Board, in its sole discretion, determines is unreasonable under the circumstances, or the Members fail to approve any Assessment increase needed to fund the insurance premiums. In such event, the Board immediately shall notify each Member and any Mortgagee entitled to notice that the insurance will not be obtained or renewed.

Section 9.10. Policies Obtained by the Declarant. It is contemplated that the Declarant may contract for the insurance coverage contemplated by this Article prior to or concurrently with obtaining financing for the development of the Project, and any such obligations or commitments for the payment of premiums or expenses with respect thereto shall become an obligation of the Association, shall be treated as a Common Expense as provided herein.

ARTICLE X
DAMAGE OR DESTRUCTION

Section 10.01. Destruction; Proceeds Exceed Eighty-Five Percent (85%) of the Reconstruction Costs. If there is a total or partial destruction of any Improvements in the Project, and if the available proceeds of the insurance maintained pursuant to Article IX, above, are sufficient to cover not less than eighty-five percent (85%) of the costs of repair and reconstruction, the Improvements shall be promptly rebuilt unless, within ninety (90) days from the date of destruction, seventy-five percent (75%) of the "eligible Members" (as defined in Section 10.04, below), determine that such repair and reconstruction shall not take place. If repair and reconstruction is to take place, the Board shall be required to Record, not later than one hundred twenty (120) days from the date of such destruction, a certificate declaring the intention of the Members to rebuild.

Section 10.02. Destruction; Proceeds Less Than Eight-Five Percent (85%) of Reconstruction Costs. If the proceeds of insurance are less than eighty-five percent (85%) of the cost of repair and reconstruction, repair and reconstruction may nevertheless take place, if, within ninety (90) days from the date of destruction, eligible Members then holding at least fifty-one (51%) percent of the total voting power, determine that such repair and reconstruction shall take place, the Board shall be required to Record, not later than one hundred twenty (120) days from the date of such destruction, a certificate declaring the intention of the Members to rebuild.

Section 10.03. Rebuilding Procedures. If the eligible Members determine to rebuild, pursuant to Section 10.01 or 10.02, above, the Owner of each Unit located within a structure that has been totally or partially destroyed shall be obligated to contribute his or her proportionate share of the cost of reconstruction or restoration of the structure containing his or her Unit, over and above the available insurance proceeds. Owners shall contribute their proportionate share of the cost of reconstruction or restoration of any portion of the Common Area based upon the ratio the square footage of the floor area of his or her Unit bears to the total square footage of the floor area of all affected Units. If any Owner fails or refuses to pay his or her proportionate share, the Board may levy a Special Individual Assessment against the Unit of such Owner which may be enforced under the lien provisions contained in Article IV, above, or in any other manner provided in this Declaration.

If any Owner disputes the amount of his or her proportionate liability under this section, such Owner may contest the amount of his or her liability by submitting to the Board within ten (10) days after notice to the Owner of his or her share of the liability, written objections supported by cost estimates or other information that the Owner deems to be material and may request a hearing before the Board at which the Owner may be represented by counsel. Following such hearing, the Board shall give written notice of its decision to all Owners, including any recommendation that adjustments be made with respect to the liability of any Owners. If such adjustments are recommended, the notice shall schedule a special meeting of Members for the purpose of acting on the Board's recommendation, including making further adjustments, if deemed by the Members to be necessary or appropriate. All adjustments shall be

affirmed or modified by fifty-one (51%) percent of the total voting power of the eligible Members. If no adjustments are recommended by the Board, the decision of the Board shall be final and binding on all Owners, including any Owner filing objections.

Section 10.04. Definition of "Eligible Members" Entitled to Vote. For purposes of any vote pursuant to this Article, the Members eligible to vote shall be: (a) the requisite percentage of the total voting power of both classes of membership in the case of any damage or destruction of Common Facilities, other than building structures containing Units; and (b) in the case of the damage or destruction of any building structure(s) containing Units, the requisite percentage shall be of those members whose Units are located in the damaged or destroyed structure(s). Any membership vote required hereunder shall be conducted either at a duly convened meeting at which a quorum is present or by written ballot conducted in accordance with Section 4.06, of the Bylaws.

Section 10.05. Rebuilding Contract. If the eligible Members determine to rebuild, the Board shall reconstruct the damaged or destroyed portions of the Project substantially in accordance with the original plan. The Board or its authorized representative shall obtain bids from at least two reputable contractors and shall award the repair and reconstruction work to the lowest qualified bidder. The Board shall have the authority to enter into a written contract with the contractor for such repair and reconstruction, and the insurance proceeds held by the trustee shall be disbursed to the contractor according to the terms and conditions of the agreement. It shall be the obligation of the Board to take all steps necessary to assure the commencement and completion of authorized repair and reconstruction at the earliest possible date.

Section 10.06. Rebuilding Not Authorized. If the eligible Members voting on the matter determine not to rebuild, then any insurance proceeds then available for such rebuilding shall be distributed to the Owner of each affected Condominium and his or her institutional Mortgages, as their interests may appear, in proportion to the respective fair market values of the affected Units at the time of destruction as determined by an independent appraisal conducted in accordance with the provisions of Section 10.08, below. The Board shall have the duty, within one hundred twenty (120) days from the date of such destruction, to Record a certificate declaring the intention of the Members not to rebuild.

Section 10.07. Minor Repair and Reconstruction. In any case, the Board shall have the duty to repair and reconstruct Improvements, without the consent of Members and irrespective of the amount of available insurance proceeds, in all cases of partial destruction when the estimated cost of repair and reconstruction does not exceed five (5%) percent of the budgeted gross expenses of the Association for that fiscal year when aggregated with any other Special Assessments for the same fiscal year. Any amounts paid by the Board hereunder shall be assessed to the Owners' of the affected Units upon the basis of the ratio of the square footage of the floor area of the Owner's Unit to the total square footage of the floor area of all affected Units.

Section 10.08. Revival of Right to Partition. Upon Recordation of a certificate described in Section 10.05, above, the right of any Owner to partition through legal action as described in Article XII, below, shall revive immediately.

Section 10.09. Appraiser. Wherever in this Article or in Article XI, below, reference is made to a determination of the value or fair market value of one or more Condominiums by an appraisal, this shall mean an appraisal by an independent appraiser selected by the Board, who shall be a member of the Society of Real Estate Appraisers (SREA) or other nationally recognized appraiser organization and who shall apply its or such other organization's standards in determining the value or fair market value of each Condominium. The costs of such appraisals shall be paid from the sale or insurance proceeds, as the case may be.

ARTICLE XI
CONDEMNATION

Section 11.01. Sale by Unanimous Consent. If an action for condemnation of all or a portion of the Project is proposed or threatened by any governmental agency having the right of eminent domain, then, on unanimous written consent of all of the Owners and after written notice to all Mortgagees, the Project, or a portion of it, may be sold by the Board acting as irrevocable attorney-in-fact of all of the Owners for a price deemed fair and equitable by the Board but in no event less than the aggregate unpaid balance of all Mortgages encumbering Condominiums within the Project.

Section 11.02. Distribution of Proceeds of Sale. On a sale occurring under Section 11.01, above, if the agreement of sale does not by its terms apportion the sale proceeds among the Owners and their respective Mortgagees, the Board shall select an independent SREA appraiser who shall determine the relative fair market values of the Condominiums affected by the sale, in accordance with SREA standards. The sale proceeds shall then be apportioned among the Owners and their respective Mortgagees, according to such relative values.

Section 11.03. Distribution of Condemnation Award. If the Project, or a portion of it, is not sold but is instead taken, the judgment of condemnation shall by its terms apportion the award among the Owners and their respective Mortgagees.

Section 11.04. Appraisal if Condemnation Award Not Apportioned. If the judgment of condemnation does not by its terms apportion the award among the Owners and their respective Mortgagees, the Board shall select an independent SREA appraiser who shall determine the relative fair market values of the Condominiums affected by the condemnation, in accordance with SREA standards. The award shall then be apportioned among the Owners and their respective Mortgagees, according to such relative values.

Section 11.05. Revival of Right to Partition. On sale or on taking that renders more than fifty (50%) percent of the Units in the Project uninhabitable, the right of any Owner to partition through legal action shall revive immediately, as more particularly provided in Section 12.01, below.

ARTICLE XII
NONSEVERABILITY OF COMPONENT INTERESTS IN A CONDOMINIUM

Section 12.01. Prohibition Against Severance. Except as otherwise provided in Section 12.03, below, an Owner shall not be entitled to sever the Owner's Unit or Condominium interest from the Owner's membership in the Association, and shall not be entitled to sever the Owner's Unit and membership from the Owner's undivided interest in the Common Area for any purpose. None of the component interests in a Condominium can be severally sold, conveyed, encumbered, hypothecated, or otherwise dealt with, and any violation or attempted violation of this provision shall be void. Similarly, no Owner can sever any exclusive easement appurtenant to the Owner's Unit over the Common Area from the Owner's Condominium, and any attempt to do so shall be void. The suspension of this right of severability will not extend beyond the period set forth in Article XI, above, respecting the suspension of partition.

Section 12.02. Conveyances. After the initial sales of Condominiums within the Project, any subsequent conveyances of a Unit or of the Condominium's component interest in the Common Area shall be presumed to convey the entire Condominium. However, nothing contained in this section shall preclude the Owner of any Condominium from creating a co-tenancy or joint tenancy in the ownership of the Condominium with any other person or persons.

Section 12.03. Suspension. The right of partition is suspended pursuant to California Civil Code section 1359 (entitled "restrictions on partition") as to the Project. Partition of the Project can be had only upon a showing of one or more of the factors described in subparagraph (b) of said section 1359. Nothing in this Declaration shall prevent partition of a co-tenancy in a particular Condominium.

Section 12.04. Distribution of Proceeds. Proceeds or property resulting from a partition shall be distributed to and among the respective Owners and their Mortgagees as their interests appear as follows: the Board shall select an independent SREA appraiser in accordance with Section 10.08, above, who shall determine the relative fair market values of the Condominiums in accordance with SREA standards. The proceeds or property shall then be apportioned among the Owners and their respective Mortgagees, according to such relative values. Such relative values shall be determined as of a date immediately prior to any sale, taking or destruction of the Project.

Section 12.05. Power of Attorney. Each Owner grants the Association an irrevocable power of attorney to sell the Project for the benefit of the Owners when partition can be had pursuant to California Civil Code section 1359. Exercise of the power is subject to the approval of fifty-one (51%) percent of the voting power of the Members and their first Mortgagees.

ARTICLE XIII
BREACH OR DEFAULT

Section 13.01. Remedy at Law Inadequate. Except for the nonpayment of any Assessment, it is hereby expressly declared and agreed that the remedy at law to recover damages for the breach, default or violation of any of the covenants, conditions, restrictions, limitations, reservations, grants of easements, rights, rights-of-way, liens, charges or equitable servitudes contained in this Declaration are inadequate and that the failure of any Owner, tenant,

occupant or user of any Condominium or any portion of the Common Area or Common Facilities, to comply with any provision of this Declaration or any rule, regulation, decision or resolution of the Board of Directors, Bylaws, or Articles of the Association, all as may be amended from time to time, may be enjoined by appropriate legal proceedings instituted by the Declarant, any Owner, the Association, its officers or Board of Directors, or by their respective successors-in-interest.

Section 13.02. Nuisance. Without limiting the generality of the foregoing section 14.01, the result of every act or omission whereby any covenant contained in this Declaration is violated in whole or in part is hereby declared to be a nuisance, and every remedy against nuisance, either public or private, shall be applicable against every such act or omission.

Section 13.03. Attorneys' Fees. Reasonable attorneys' fees and costs shall be awarded to the prevailing party in any procedure to enforce the Governing Documents or a party's rights arising under the Governing Documents. Such enforcement procedures include an action brought in any court of competent jurisdiction as well as any alternative dispute resolution procedure implemented pursuant to the Governing Documents or pursuant to California Civil Code sections 1354 and 1369.510-1369.580 (as such sections may be renumbered or revised from time to time). In any enforcement procedure, such as mediation in which there is no agreement between all of the parties that attorneys will represent them, recoverable costs are limited to attorneys' fees and costs incurred in providing the notices required under such statute.

Section 13.04. Cumulative Remedies. The respective rights and remedies provided by this Declaration or by law shall be cumulative, and the exercise of any one or more of such rights or remedies shall not preclude or affect the exercise, at the same or at different times, of any other such rights or remedies for the same or any different default or breach or for the same or any different failure of any Owner or other to perform or observe any provision of this Declaration.

Section 13.05. Failure Not a Waiver. The failure of Declarant, any Owner, the Association or its Board of Directors, officers or agents to enforce any of the covenants, conditions, restrictions, limitations, reservations, grants of easements, rights, rights-of-way, liens, charges or equitable servitudes contained in this Declaration shall not constitute a waiver of the right to enforce the same thereafter, nor shall such failure result in or impose any liability upon the Declarant, the Association or the Board, or any of its officers or agents.

Section 13.06. Rights and Remedies of the Association (Governing Document Enforcement).

(a) Rights Generally. In the event of a breach or violation of any Association Rule or of any of the restrictions contained in any Governing Document by an Owner, his or her family, or the Owner's guests, employees, invitees, licensees, or tenants, the Board, for and on behalf of all other Owners, may enforce the obligations of each Owner to obey the Association Rules, covenants, or restrictions through the use of such remedies as are deemed appropriate by the Board and available in law or in equity, including, but not limited to, the hiring of legal counsel, the imposition of fines and monetary penalties, the pursuit of legal action, or the suspension of the Owner's right to use recreation Common Facilities or suspension of the Owner's voting rights as a Member of the Association; provided, however, the Association's right to undertake disciplinary action against its Members shall be subject to the conditions set forth in this Section.

The decision of whether it is appropriate or necessary for the Association to take enforcement or disciplinary action in any particular instance shall be within the sole discretion of the Association's Board or its duly authorized enforcement committee. If the Association declines to take action in any instance, any Owner shall have such rights of enforcement pursuant to California Civil Code sections 1354(b) and 1369.510-1369.580 or otherwise by law.

(b) Schedule of Fines. The Board may implement a schedule of reasonable fines and penalties for particular offenses that are common or recurring in nature and for which a uniform fine schedule is appropriate (such as fines for late payment of Assessments or illegally parked vehicles). Once imposed, a fine or penalty may be collected as a Special Individual Assessment, subject to the limitation on the use of lien and foreclosure remedies stated in Section 4.10(b)(ii), above. Upon adoption of a fine schedule and later at any time the schedule is revised, the Association shall distribute a copy of the schedule to its Members by personal delivery or first-class mail in accordance with Civil Code section 1363(g).

(c) Definition of "Violation." A violation of the Governing Documents shall be defined as a single act or omission occurring on a single day. If the detrimental effect of a violation continues for additional days, discipline imposed by the Board may include one component for the violation and, according to the Board's discretion, a per diem component for so long as the detrimental effect continues. Similar violations on different days shall justify cumulative imposition of disciplinary measures. The Association shall take reasonable and prompt action to repair or avoid the continuing damaging effects of a violation or nuisance occurring within the Common Area at the cost of the responsible Owner.

(d) Limitations of Exercise of Disciplinary Rights.

(i) The Association shall have no power to cause a forfeiture or abridgment of an Owner's right to the full use and enjoyment of his or her Lot due to the failure by the Owner (or his or her family members, tenants, guests or invitees) to comply with any provision of the Governing Documents or of any duly enacted Association Rule except where the loss or forfeiture is the result of the judgment of a court of competent jurisdiction, a decision arising out of arbitration or a foreclosure or sale under a power of sale for failure of the Owner to pay Assessments levied by the Association, or where the loss or forfeiture is limited to a temporary

suspension of an Owner's rights as a Member of the Association or the imposition of monetary penalties for failure to pay Assessments or otherwise comply with any Governing Documents so long as the Association's actions satisfy the due process requirements of subparagraph (iii), below.

(ii) Monetary penalties imposed by the Association: (A) for failure of a Member to comply with the Governing Documents; (B) as a means of reimbursing the Association for costs incurred by the Association in the repair of damage to the Common Area or Common Facilities allegedly caused by a Member; or (C) in bringing the Member and his or her Lot into compliance with the Governing Documents, may not be characterized nor treated as an Assessment which may become a lien against the Member's Lot enforceable by a sale of the Lot in nonjudicial foreclosure; provided, however, that this limitation on the Association's lien rights shall not apply to charges imposed against an Owner consisting of reasonable late payment penalties to reimburse the Association for the loss of interest and for costs reasonably incurred (including attorneys' fees) in the Association's efforts to collect delinquent Assessments.

(iii) Notice and Hearing Requirements for Disciplinary Actions.

(A) General Rule and Notice Content Requirements. Except in those limited circumstances described in subparagraph (B), below, no disciplinary action, penalty or temporary suspension of rights shall be imposed pursuant to this Article unless the Owner alleged to be in violation is given at least ten (10) days prior notice by personal delivery or first-class mail, that the Board of Directors will be meeting to consider imposing such discipline. The notice shall include, at a minimum, the date, time, and place of the meeting, the nature of the alleged violations for which the Owner may be disciplined (including a reference to the specific Governing Document provision alleged to have been violated), and a statement that the Owner has a right to attend and address the Board at the hearing. Hearings shall be conducted in accordance with subparagraph (C), below.

(B) Circumstances Under Which Summary Enforcement is Permitted. Notwithstanding the foregoing, under circumstances involving conduct that constitutes: (1) an immediate and unreasonable infringement of, or threat to, the safety or quiet enjoyment of neighboring Owners; (2) a traffic or fire hazard; (3) a threat of material damage to, or destruction of, the Common Area or Common Facilities; or (4) a violation of the Governing Documents that is of such a nature that there is no material question regarding the identity of the violator or whether a violation has occurred (such as late payment of Assessments or parking violations), the Board of Directors, or its duly authorized agents, may undertake immediate corrective or disciplinary action and, upon request of the offending Owner (which request must be received by the Association, in writing, within five (5) days following the Association's disciplinary action), or on its own initiative, conduct a hearing as soon thereafter as reasonably possible.

If the Association acts on its own initiative to schedule a hearing, notice of the date, time and location of the hearing shall accompany the notice of disciplinary action. The notice shall include, at a minimum, the date, time, and place of the meeting, the nature of the alleged violations for which the Owner may be disciplined, and a statement that the Owner has a right to attend and address the Board at the hearing. If the accused Owner desires a hearing, a

written request therefor shall be delivered to the Association no later than five (5) days following the date when the fine is levied or other Association disciplinary/enforcement action is taken.

The hearing shall be held no more than fifteen (15) days following the date of the disciplinary action or fifteen (15) days following receipt of the accused Owner's request for a hearing, whichever is later. Under such circumstances, any fine or other disciplinary action shall be held in abeyance and shall only become effective if affirmed at the hearing.

(C) Conduct of Hearings. At the hearing, the accused Owner shall be given the opportunity to be heard, including the right to present evidence and to present or question witnesses. The Board shall conduct the hearing in executive session if requested by the Owner who is the subject of the disciplinary action. The Board shall notify the accused Owner, in writing, of the Board's decision, by either personal delivery for first-class mail, within fifteen (15) days following conclusion of the hearing. In no event shall the effective date of any disciplinary action commence sooner than five (5) days following conclusion of the hearing unless: (i) the hearing merely affirms summary disciplinary action initiated pursuant to the immediately preceding paragraph; or (ii) earlier commencement is necessary to preserve the quiet enjoyment of other residents or to prevent further damage to, or destruction of, the Lots or any portion thereof. In accordance with Civil Code section 1363(h), disciplinary action shall not be effective against an Owner unless the Board fulfills the requirements of this Section.

(iv) Inapplicability of Section 13.06(d) Procedures to Assessment Collection Actions. The notice and hearing procedures set forth in Section 13.06(d) shall not apply to any actions by the Association or its duly authorized agents to collect delinquent assessments. Assessment collections shall be subject to the prior notification and other procedural requirements set forth in Section 4.10, above, and any other notice, hearing and/or dispute resolution requirements or procedures as may be specifically applicable by law to Association assessment collection actions.

(e) Notices. Any notice required by this Article shall, at a minimum, set forth the date and time for the hearing, a brief description of the action or inaction constituting the alleged violation of the Governing Documents and a reference to the specific Governing Document provision alleged to have been violated. The notice shall be in writing and may be given by any method reasonably calculated to give actual notice; provided, however, that if notice is given by mail it shall be sent by first-class or certified mail sent to the last address of the Member shown on the records of the Association.

(f) Rules Regarding Disciplinary Proceedings. The Board, or an appropriate committee appointed by the Board to conduct and administer disciplinary hearings and related proceedings, shall be entitled to adopt rules that further elaborate and refine the procedures for conducting disciplinary proceedings, so long as such rules meet the minimum requirements of sections 1363(h) and 1363.810-1363.850 of the Civil Code and are otherwise consistent with subparagraph (d) of this Section 13.06. Such rules, when approved and adopted by the Board, shall become a part of the Association Rules.

Section 13.07. Court Actions. Court actions to enforce the Governing Documents may only be initiated on behalf of the Association by resolution of the Board. Prior to the filing of

any court action seeking declaratory, injunctive, or writ relief to interpret or enforce the Governing Documents (including any such action coupled with a claim for monetary damages not in excess of Five Thousand Dollars ($5,000)), the Association shall first comply with the provisions of California Civil Code sections 1369.510-1369.580 relating to the use of alternative dispute resolution that involves a neutral party in the decision-making process in an effort to resolve the dispute.

Section 13.08. Assessment Collection Actions. The notice and hearing procedures set forth in Section 13.06, above, shall not apply to any actions by the Association or its duly authorized agents to collect delinquent assessments. Assessment collections shall be subject to the notice and procedural requirements imposed by Section 4.10, above, and any other notice, hearing and/or dispute resolution requirements or procedures as may be specifically applicable by law to community association assessment collection efforts.

ARTICLE XIV
PROTECTION OF MORTGAGEES

Section 14.01. Assessment Lien Subordinated. Any lien created or claimed under the provisions of Article IV, above, shall be subject and subordinate to the lien of any first Mortgage given in good faith and for value. No such first Mortgagee who acquires title to any Condominium, or to the Owner's interest therein, by judicial foreclosure or by exercise of power of sale contained in the Mortgage shall be obligated to cure any breach of this Declaration by a former Owner of such Condominium or shall be liable for any unpaid Assessments made against the Condominium which accrued prior to the date the Mortgagee acquired such title. No lien created or claimed under the provisions of Article IV, above, shall in any way defeat, invalidate or impair the rights of any Mortgagee under any such Recorded first Mortgage.

Section 14.02. Amendment of This Declaration. Except where an amendment has been approved in accordance with Section 14.12, below, no amendment of this Declaration shall affect any of the rights of the holder of any Mortgage described in Section 14.01, above, which is made in good faith and for value, if such Mortgage is Recorded and notice of the delivery and Recordation thereof is given to the Association prior to the Recording of such amendment.

Section 14.03. Breach; Obligation After Foreclosure. No breach of any provision of this Declaration by the Association or any Owner shall impair or invalidate the lien of any Recorded Mortgage made in good faith and for value and encumbering any Condominium or the Owner's interest therein, but all of the covenants, conditions, restrictions, limitations, reservations, grants of easements, rights, rights-of-way, liens, charges and equitable servitudes shall remain provided for or against any person who acquires title to or any beneficial interest in any Condominium through foreclosure, trustee's sale or otherwise.

Section 14.04. Exchange of Information. The Association shall, at the written request of any Mortgagee, insurer or guarantor, notify such party of:

(a) Any condemnation or casualty loss that affects either a material portion of the Project or the Unit(s) securing the Mortgage;

(b) Any delinquency of sixty (60) days or more in the payment of Assessments or charges owed by the Owner(s) of the Unit(s) securing the Mortgage;

(c) A lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association; and

(d) Any proposed action of the Association that requires the consent of a specified percentage of Eligible Mortgagees (see Section 14.12(a), below, for definition of "Eligible Mortgagee").

To be entitled to receive this information, the Mortgagee, insurer or guarantor must send a written request to the Association, stating both its name and address and the number or address of the Unit(s) securing the Mortgage. Any Mortgagee of any Condominium is hereby authorized to furnish to the Board of Directors, upon written request by the Board therefor, the amount of any unpaid balance of any indebtedness secured by a lien of a Mortgage and the amount and due date of any delinquent payment or payments on such indebtedness.

Section 14.05. Certain Restrictions Affecting the Association. Notwithstanding any other provisions of this Declaration, without the prior written consent of at least sixty-seven (67%) percent of the Owners or sixty-seven (67%) percent of the first Mortgagees, such percentage to be based upon the total number of Condominiums so mortgaged with each such Mortgage entitled to one vote for each Unit, the Association shall not:

(a) By act or omission, seek to abandon, partition, subdivide, encumber, sell or transfer the Common Area or any Improvements thereon (except that the granting of any easement for public utilities, or for other public purposes consistent with the intended use of the Project, shall not be deemed a "transfer" as that term is used in this subparagraph (a));

(b) Change the method provided in this Declaration for determining the Assessments or other charges which may be assessed against an Owner or the method of allocating distributions of hazard insurance proceeds or condemnation awards;

(c) By act or omission, change, waive or abandon the scheme of maintenance and repair of the Project, or the enforcement thereof, as provided in this Declaration;

(d) Fail to maintain fire and extended coverage insurance on the Common Facilities in the amount and against the risks provided in Section 9.01, above; and

(e) Use any insurance proceeds received as a result of the occurrence of loss or damage to the Common Facilities for any purpose other than the repair, replacement or reconstruction of such Common Facilities.

Section 14.06. Right of First Mortgagees to Make Certain Payments and Right of Reimbursement Therefor. The holders of first Mortgages on the Condominiums shall have the right (but not the obligation), jointly or singly: (i) to pay taxes or other Assessments or charges which are in default and which may or have become a lien or charge against the Common Facilities; (ii) to pay overdue premiums on casualty insurance policies for the Common Facilities; and (iii) to secure and pay for new casualty insurance coverage on the Common

Facilities upon the lapse of any such policy, in the amount and against the risks provided in Section 9.01, above. Any first Mortgagee making such payment shall be entitled to immediate reimbursement therefor from the Association. Upon the request of any first Mortgagee, the Association shall, by separate instrument signed by the president or any vice president and the secretary or any assistant secretary, evidence its agreement to the provisions of this section as the same affects the Mortgage held by such Mortgagee.

Section 14.07. Right to Examine Books and Records of the Association. All Mortgagees, insurers and guarantors of any Mortgages on any Condominium shall have the right, upon written request to the Association, to:

(a) Examine current copies of the Governing Documents and the Association's books, records and financial statements, during normal business hours;

(b) Require the Association to provide an audited statement for the preceding fiscal year at the requesting entity's expense; and

(c) Receive written notice of all membership meetings and designate a representative to attend such meetings.

Section 14.08. Notices to First Mortgagees. The Association shall furnish to the holder of any first Mortgage on any Condominium, upon written request by the first Mortgagee, thirty (30) days prior written notice of: (a) abandonment or termination of the Association; (b) the effective date of any proposed material amendment to the Declaration; (c) any decision by the Association to terminate professional management, if any, and assume self-management of the Project; (d) any condemnation or eminent domain proceeding; and (e) any extensive damage to or destruction of any Improvements located on the Common Area.

Section 14.09. Superiority of Mortgage to Condemnation Proceeds. If any Condominium, or portion thereof, or the Common Area, or any portion thereof, is made the subject matter of any condemnation or eminent domain proceeding, the lien of any first Mortgage shall be prior and superior to the claims of the Owners of said Condominiums or Common Area with respect to any distribution of the proceeds of any condemnation award or settlement.

Section 14.10. Superiority of Mortgage to Insurance Proceeds. In the event of any substantial damage to or destruction of the Improvements constituting the building structure of any Condominium, or on any part of the Common Area, the lien of any first Mortgage shall be prior and superior to the claims of the Owners of said Improvements with respect to any distribution of any insurance proceeds relating to such damage or destruction.

Section 14.11. Declaration to Conform With Mortgagee Requirements. It is the intent of this Article that this Declaration, the Articles of Incorporation, the Bylaws and the Project in general, shall now and in the future meet all requirements of any institutional Mortgagee intending to secure its Mortgage by a Unit or necessary to purchase, guarantee, insure or subsidize any Mortgage of a Unit by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Veterans' Administration.

Section 14.12. Approval of Material Amendments or Termination.

(a) Material Amendments. In addition to the approvals required by Section 18.01 and Section 18.02, below, Eligible Mortgagees who represent at least fifty-one (51%) percent of the votes of Units that are subject to Mortgages held by Eligible Mortgagees must approve any amendment to this Declaration of a material nature. An Eligible Mortgagee is the beneficiary of a first Mortgage who has requested the Association to notify it of any proposed action that requires the consent of a specified percentage of Eligible Mortgagees. A change to any of the following would be considered as material:

(i) voting rights;

(ii) assessments, assessment liens or the priority of assessment liens;

(iii) reserves and responsibility for maintenance, repair and replacement of the Common Area;

(iv) reallocation of interests in the general Common Areas or the Exclusive Use Common Areas, or rights to their use;

(v) redefinition of any Unit boundaries;

(vi) convertibility of Units into Common Area and vice versa;

(vii) annexation or deannexation of property to or from the Project;

(viii) insurance or fidelity bonds;

(ix) leasing of Units;

(x) imposition of any restrictions on an Owner's right to sell or transfer his or her Unit;

(xi) a decision by the Association to establish self-management when professional management had been required previously by the Governing Documents or by an Eligible Mortgagee;

(xii) restoration or repair of the Project (after a hazard damage or partial condemnation) in a manner other than that specified in the Governing Documents;

(xiii) any action to terminate the legal status of the Project after substantial destruction or condemnation occurs; or

(xiv) any provisions that expressly benefit Mortgagees, insurers or guarantors.

(b) Termination. In addition to the approvals required by Article XVII, below, Eligible Mortgagees who represent at least sixty-seven (67%) percent of the votes of Units that are subject to Mortgages held by Eligible Mortgagees must approve any proposed termination of

the legal status of the project for reasons other than substantial destruction or condemnation of the Project.

(c) Implied Approval. Each Eligible Mortgagee which receives notice of a proposed amendment or termination of this Declaration by certified or registered mail, with a "return receipt" requested, shall be deemed to have approved the amendment or termination if the Eligible Mortgagee fails to submit a response to the notice within thirty (30) days of receiving the notice.

ARTICLE XV
NOTICES

Section 15.01. Mailing Addresses. Any communication or notice of any kind permitted or required herein shall be in writing and may be served, as an alternative to personal service, by mailing the same as follows:

If to Declarant:	Pismo Beach Properties Club, LLC 198 Main Street, Pismo Beach, CA 93449 (or to such other address as the Declarant may from time to time designate in writing to the Association)
If to any Owner:	To the street address of his or her Condominium Unit, or to such other address as the Owner may from time to time designate in writing to the Association.
If to the Association:	Beach House Inn Association, 198 Main Street, Pismo Beach, CA,.93449 or to such other address as the Association may from time to time designate in writing to the Owners.

Nothing in this Section 15.01 is intended to preclude the use of any other means of delivering notices to Members or Owners (other than by personal service or mail) if other methods of delivery are authorized by this Declaration by Civil Code Section 1350.7, or by other provisions of the Davis-Stirling Common Interest Development Act (California Civil Code section 1350 et seq.) that reference Civil Code section 1350.7.

Section 15.02. Personal Service Upon Co-Owners and Others. Personal service of a notice or demand to one of the co-owners of any Condominium, to any general partner of a partnership which is the Owner of Record of any Condominium, or to any officer or agent for service of process of a corporation which is the Owner of Record of any Condominium, shall be deemed delivered to all such co-owners, to such partnership, or to such corporation, as the case may be.

Section 15.03. Deposit in United States Mails. All notices and demands served by mail shall be by first-class or certified mail, with postage prepaid, and shall be deemed delivered seventy-two (72) hours after deposit in the United States mail in the County.

ARTICLE XVI
NO PUBLIC RIGHTS IN THE PROJECT

Nothing contained in this Declaration shall be deemed to be a gift or dedication of all or any portion of the Project to the general public or for any public use or purpose whatsoever.

ARTICLE XVII
AMENDMENT OF DECLARATION

Section 17.01. Amendment Before Close of First Sale. Before the close of escrow for the first sale of a Unit in the Project to a purchaser other than Declarant, this Declaration and any amendments to it may be amended in any respect or revoked by the execution by Declarant and any Mortgagee of record by an instrument amending or revoking the Declaration, provided the consent or approval of the California Real Estate Commissioner is first obtained to the extent required by California law. The amending or revoking instrument shall make appropriate reference to this Declaration and its amendments and shall be Recorded.

Section 17.02. Amendment After Close of First Sale. After the close of escrow for the first sale of a Condominium Unit in the Project to a purchaser other than Declarant, this Declaration may be amended or revoked in any respect upon compliance with the following provisions:

(a) Member Approval Requirements. Any amendment shall be approved by the vote or assent by written ballot of the holders of not less than fifty-one percent (51%) of the Voting Power of each class of Members. If a two-class voting structure is no longer in effect in the Association because of the conversion of Class B membership to Class A membership, as provided in the Association's Bylaws, any amendment thereof will require the vote or assent by written ballot of both: (i) fifty-one percent (51%) of the total voting power of the Association; and (ii) the vote of fifty-one percent (51%) of the total Voting Power held by Members other than the Declarant. Notwithstanding the foregoing, the percentage of the voting power necessary to amend a specific clause or provision of this Declaration shall not be less than the percentage of affirmative votes prescribed for action to be taken under that clause. Any vote to amend any provision of this Declaration shall be conducted in accordance with the procedures pertaining to the use of secret ballots that are set forth in Section 7.05, subparagraphs (b) through (i), of the Association Bylaws.

(b) Requirement of Approval of Certain Amendments By Other Parties.

(i) Approval by the Declarant. For so long as the Declarant owns any Units in the Project the following provisions of this Declaration may only be amended or revoked with the consent of the Declarant: 1.17, 1.23, 1.29, 1.38, 2.03, 3.07(b), 4.14, 5.01, 6.01, 6.02, 6.04, 7.01, 7.03, 7.04, 7.08, 7.15, 7.18, 8.04, 8.05 and this subparagraph (b)(i).

(ii) Approval by the City. The following provisions of this Declaration reflect Conditions of Approval imposed by the City of Pismo Beach and may only be amended or revoked with the consent of the City: 1.08, 1.14, 1.38, 2.03, 7.01, 7.04, 7.15, 7.18 and this subparagraph (b)(ii).

(iii) Mortgagee Approvals. Prior approval of the holders of any First Mortgage shall be required to amend or rescind any of the provisions identified in Section 15.12, above.

Section 17.03. Department of Real Estate. An amendment to this Declaration, Bylaws, or other governing instruments of the Association shall require immediate notification of the Department of Real Estate so long as the Association is subject to an outstanding final subdivision public report.

Section 17.04. Effective Date of Amendment. The amendment shall be effective upon the Recordation of an instrument setting forth the terms thereof duly certified and executed by the president and secretary of the Association. If the consent or approval of any governmental authority, Mortgagee, or other person, firm, agency or entity is required under this Declaration with respect to any amendment or the revocation of any provision of this Declaration, no such amendment or revocation shall become effective unless such consent or approval is obtained.

Section 17.05. Business and Professions Code Section 11018.7. All amendments or revocations of this Declaration shall comply with the provisions of the California Business and Professions Code section 11018.7 to the extent said section is applicable.

Section 17.06. Reliance on Amendments. Any amendments made in accordance with the terms of this Declaration shall be presumed valid by anyone relying on them in good faith.

ARTICLE XVIII
GENERAL PROVISIONS

Section 18.01. Term. The covenants, conditions, restrictions, limitations, reservations, grants of easement, rights, rights-of-way, liens, charges and equitable servitudes contained in this Declaration shall run with, and shall benefit and burden the Condominiums and the Common Area as herein provided, and shall inure to the benefit of and be binding upon the Owners, the Association, its Board of Directors, officers and agents, and their respective successors in interest, for the term of sixty (60) years from the date of Recordation of this Declaration. After the expiration of the initial term, the term of this Declaration shall be automatically extended for successive periods of ten (10) years each unless, within six (6) months prior to the expiration of the initial 60-year term or any such 10-year extension period, a written instrument, approved by

Owners entitled to vote and holding at least a majority of the voting power of the Association, terminating the effectiveness of this Declaration, is Recorded.

Section 18.02. Limitation of Restrictions on Declarant. The Declarant has a substantial investment in the successful implementation of the plan of development contemplated by this Declaration and the Condominium and the marketing and sale of Units in the Project as vacation units. The Declarant's efforts to successfully complete its work and the marketing and sale of the Units therein essential to the establishment and welfare of the Project as a residential community. In order that said work may be completed and the condominium project be established as rapidly as possible, for a period of three (3) years following sale of the first Unit within the Project or until Declarant no longer owns any Units within the Project, whichever occurs first, nothing in this Declaration shall be interpreted or construed to prevent Declarant, its contractors, subcontractors or representatives from:

(a) Doing within the Project or within or upon any Unit whatever is reasonably necessary or advisable in connection with the completion of said work; or

(b) Erecting, constructing and maintaining on any part or parts of the Project such structures, including without limitation, sales offices as may be reasonable and necessary for the conduct of its business of completing said work and disposing of same in parcels by sale, lease or otherwise; or

(c) Conducting on any part of the Project Declarant's business of completing said work, establishing a plan of ownership and disposing of the Units by sale, lease or otherwise; or

(d) Maintaining such sign or signs on the Project as may be necessary or appropriate for the construction, sale, lease or disposition of Units.

Section 18.03. Termination of Any Responsibility of Declarant. In the event Declarant shall convey all of its rights, title and interest in and to the Project to any partnership, individual or individuals, corporation or corporations (including the Association but excluding any affiliate of the Declarant), then, and in such event, Declarant shall be relieved of the performance of any further duty or obligation hereunder, and such partnership, individual or individuals, corporation or corporations shall be obligated to perform all such duties and obligations of the Declarant.

Section 18.04. Construction.

(a) Restrictions Construed Together. All of the covenants, conditions and restrictions of this Declaration shall be liberally construed together to promote and effectuate the fundamental concepts of the development of the Project as set forth in the Recitals of this Declaration. Failure to enforce any provision hereof shall not constitute a waiver of the right to enforce that provision in a subsequent application or any other provision hereof.

(b) Restrictions Severable. Notwithstanding the provisions of subparagraph (a), above, the covenants, conditions and restrictions of this Declaration shall be deemed independent and severable, and the invalidity or partial invalidity of any provision or portion thereof shall not affect the validity or enforceability of any other provision.

(e) Exhibits. All exhibits to which reference is made herein are deemed to be incorporated herein by reference, whether or not actually attached.

(f) References to State Statutes. Any references in this Declaration to State Statutes shall be to the referenced statute as in effect on the date that this Declaration is Recorded in the Official Records of the County. In the event that any referenced statute is subsequently amended or superseded, all such references shall thereupon mean and refer to the referenced statute as so amended, modified or superseded, so long as the amended statute continues to regulate or pertain to the same subject matter.

Section 18.05. Disclosure Regarding Project Rental Program and Disclaimer of any Investment Potential. As more particularly provided in Section 2.03(a), above, Conditions of Approval for the Project which were imposed by the City of Pismo Beach, require all Units in the Project, other than Unit ___ to be operated, managed and maintained as Vacation Units. Those requirements limit the extent to which Unit Owners can control or alter landscape design, maintenance levels, changes in the Common Facilities, etc., In making a decision to acquire a Vacation Unit, prospective purchasers should not attribute any value to the potential revenues derived from Owners through the rental of their Units and no representation is being made by the Declarant or the Association that Vacation Units are investment property.

Dated: Aug. 19, , 2013.

DECLARANT:

PISMO BEACH PROPERTIES CLUB, LLC, a California limited liability company

By: Shirlee Davies
Shirlee Davies, Manager

EXHIBIT "A"
LEGAL DESCRIPTION OF THE PROJECT PROPERTY

LOT 1 OF TRACT 3028, IN THE CITY OF PISMO BEACH, IN THE COUNTY OF SAN LUIS OBISPO, STATE OF CALIFORNIA, ACCORDING TO MAP FILED FOR RECORD APR 3 2014, 2014 IN BOOK 34, PAGE 24-25 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

PRORATION SCHEDULE WORKSHEET

Section I Variable Assessment Computation

A. Variable Costs Description

		Monthly Cost
1.	Insurance (excl. $400/mo. equal portion)	$ 1,254.25
2.	Domestic Gas (hot water)	$ 51.00
3.	Domestic Water (if common)	$ 345.00
4.	Paint (exterior only)	$ 285.54
5.	Roof	$ 365.80
6.	Hot Water Heater (if common)	$ 86.31
7.	Other	$
	Total Variable Cost	2,387.90

B. Total livable square footage of all units from condominium plan: 8,609 s.f.

C. Variable Factor *(variable monthly costs ÷ square footage = variable factor)*: .277373

Multiply this factor by each unit size below in Section III.

Section II Equal Assessment Computation

A.	Total Monthly Budget	$ 9,744.00
	Less Variable Costs	$ 2,387.90
	Total Monthly Equal Costs	$ 7,356.10
B.	Monthly Base Assessment:	$ 490.41

(total monthly cost ÷ number of units = monthly base assessment)

Section III Assessment Schedule

	Unit Size	x	Variable Factor	=	Variable Assessment	+	Base Assessment	=	Total Mth. Assessment	x	Unit Count	=	Total Mth Budget *
1.	330	x	.277373	=	91.53	+	490.41	=	581.94	x	1	=	581.94
2.	431	x	see above	=	119.55	+	490.41	=	609.96	x	1	=	609.96
3.	569	x	see above	=	157.83	+	490.41	=	648.24	x	1	=	648.24
4.	619	x	see above	=	171.69	+	490.41	=	662.10	x	1	=	662.10
5.	468	x	see above	=	129.81	+	490.41	=	620.22	x	1	=	620.22
6.	489	x	see above	=	135.64	+	490.41	=	626.05	x	1	=	626.05
7.	470	x	see above	=	130.37	+	490.41	=	620.78	x	1	=	620.78
8.	669	x	see above	=	185.56	+	490.41	=	675.97	x	1	=	675.97
9/11.	670	x	see above	=	185.84	+	490.41	=	676.25	x	2	=	1,352.50
10.	672	x	see above	=	186.39	+	490.41	=	676.80	x	1	=	676.80
12/14.	385	x	see above	=	106.79	+	490.41	=	597.20	x	2	=	1,194.40
13.	405	x	see above	=	112.34	+	490.41	=	602.75	x	1	=	602.75
15.	1377	x	see above	=	381.94	+	490.41	=	872.35	x	1	=	872.35

VERIFICATION OF COMPUTATIONS

Total Monthly Budget (Section III)	9,744.06
Total Monthly Budget (Section IIA)	9,744.00

* Total Assessment x number of units of each type.

Section IV Variable Assessments

Highest Assessment	-	Lowest Assessment	÷	Lowest Assessment	=	% Differential
872.35	-	581.94	÷	581.94	=	49.90 %

Note: The estimated line item costs shown in this worksheet are to be superseded by the actual line item costs included in the Association's Operating Budget. This worksheet is for the purpose of establishing the allocation formulas only.

PRORATION SCHEDULE WORKSHEET

Section I Variable Assessment Computation

A. Variable Costs Description

		Monthly Cost
1.	Insurance	$
2.	Domestic Gas (hot water)	$
3.	Domestic Water (if common)	$
4.	Paint (exterior only)	$ 285.54
5.	Roof	$ 365.80
6.	Hot Water Heater (if common)	$ 86.31
7.	Other	$
	Total Variable Cost	737.65

B. Total livable square footage of all units from condominium plan: 8,609 s.f.

C. Variable Factor *(variable monthly costs ÷ square footage = variable factor)*: .085684

Multiply this factor by each unit size below in Section III.

Section II Equal Assessment Computation

A.	Total Monthly Budget	$ 2,678.50
	Less Variable Costs	$ 737.65
	Total Monthly Equal Costs	$ 1,940.85
B.	Monthly Base Assessment:	$ 129.39

(total monthly cost ÷ number of units = monthly base assessment)

Section III Assessment Schedule

	Unit Size	x	Variable Factor	=	Variable Assessment	+	Base Assessment	=	Total Mth. Assessment	x	Unit Count	=	Total Mth Budget *
1.	330	x	.085684	=	28.28	+	129.39	=	157.67	x	1	=	157.67
2.	431	x	see above	=	36.93	+	129.39	=	166.32	x	1	=	166.32
3.	569	x	see above	=	48.75	+	129.39	=	178.14	x	1	=	178.14
4.	619	x	see above	=	53.04	+	129.39	=	182.43	x	1	=	182.43
5.	468	x	see above	=	40.10	+	129.39	=	169.49	x	1	=	169.49
6.	489	x	see above	=	41.90	+	129.39	=	171.29	x	1	=	171.29
7.	470	x	see above	=	40.27	+	129.39	=	169.66	x	1	=	169.66
8.	669	x	see above	=	57.32	+	129.39	=	186.71	x	1	=	186.71
9/11.	670	x	see above	=	57.41	+	129.39	=	186.80	x	2	=	373.60
10.	672	x	see above	=	57.58	+	129.39	=	186.97	x	1	=	186.97
12/14.	385	x	see above	=	32.99	+	129.39	=	162.38	x	2	=	324.76
13.	405	x	see above	=	34.70	+	129.39	=	164.09	x	1	=	164.09
15.	1377	x	see above	=	117.99	+	129.39	=	247.38	x	1	=	247.38

VERIFICATION OF COMPUTATIONS

Total Monthly Budget (Section III)	2,678.51
Total Monthly Budget (Section IIA)	2,678.50

* Total Assessment x number of units of each type.

Section IV Variable Assessments

Highest Assessment	-	Lowest Assessment	÷	Lowest Assessment	=	% Differential
247.38	-	157.67	÷	157.67	=	56.90 %

Note: The estimated line item costs shown in this worksheet are to be superseded by the actual line item costs included in the Association's Operating Budget. This worksheet is for the purpose of establishing the allocation formulas only.

ACKNOWLEDGMENT

State of California)
) ss
County of SAN LUIS OBISPO

On Aug. 19 , 2013 , before me, ROBERT S. YOUNG , Notary Public,
[here insert name and title of the officer]

personally appeared SHIRLEE DAVIES , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Robert S Young (Seal)

NRO1 ROBERT S. YOUNG COMM. #1942089 Notary Public - California San Luis Obispo County My Comm. Expires June 24, 2015 NRO1

State of California)
) ss
County of Sp)

On _____, 2013 , before me, _____, Notary Public,
[here insert name and title of the officer]

personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____(Seal)