

BY-LAWS

FALLSMEAD HOMES CORPORATION

Approved March 1977

ARTICLE I.

Name and Location

The name of this organization is the Fallsmead Homes Corporation, and its address for legal service is P.O. Box 1565, Rockville, Maryland 20850.

ARTICLE II.

Purpose

The Fallsmead Homes Corporation is organized for the purposes of advancing and protecting the general welfare of the members and for such other services as delineated in its Declaration of Covenants, Conditions and Restrictions (dated January 25, 1968, and March 28, 1968) and in its Articles of Incorporation, dated December 1, 1966 (Liber 124, pages 64-67).

ARTICLE III.

Membership

Section 1. Every Owner as defined in Article I, Section 1 (d) of the Declaration of Covenants, Conditions and Restrictions, shall be a member of the Fallsmead Homes Corporation.

Section 2. Members shall be entitled to one vote for each private dwelling unit they own. When there is more than one member for a private dwelling unit, such members shall exercise the vote as they, among themselves determine, but in no event shall a fractional vote be cast. An Owner may delegate his vote to his tenant by the submission of a written, signed vote delegation statement to the Secretary of the Corporation.

Section 3. Members, their families residing in the Fallsmead household, or their tenants whose names have been given in writing to the Corporation's Secretary and such other persons permitted under rules and regulations duly adopted by the Board of Directors shall be entitled to the use and enjoyment of the Community Properties, provided, however, that such use and enjoyment may be suspended by the Board of Directors for a period not to exceed 30 days for each such violation by any such above person of any rule or regulation as provided for in Article IV of the Declaration of Covenants governing the use of Community Properties and facilities, and the personal conduct of any person thereon.

Section 4. The use of Community Property is subject to the payment of annual and special assessments levied by the Corporation. The obligation for said assessments is imposed against each Owner of and becomes a lien upon the property against which such assessments are made as provided by Article V of the Declaration of Covenants. The membership rights of any person who fails timely to pay assessments or charges, whether or not such a person is personally obligated to pay such assessments, may be suspended by action of the Board of Directors during the period when the assessments remain unpaid; but, upon payment of such assessments, his rights of use and enjoyment shall be automatically restored.

ARTICLE IV.

Officers, Their Powers and Duties

Section 1. The officers shall be a president, a vice-president, a secretary, a treasurer.

Section 2. The officers shall be chosen by majority vote of the Directors.

Section 3. The president shall be elected by the Board of Directors from among its members. No person shall be eligible to be elected to the office of president unless such person is, at the time of such election, a resident member of the Fallsmead Homes Corporation. The president shall serve in office for a term of one (1) year. No person shall be eligible for election to the office of president for more than two (2) consecutive terms.

Section 4. Subject to the control of the Board of Directors, the president shall be the chief executive officer of the Corporation, shall preside at all meetings of the Board of Directors, shall see that orders and resolutions of the Board of Directors are carried out and shall sign such documents as determined by resolution of the Board of Directors. The president shall serve as an ex-officio member of all standing committees. The president shall also have all other powers and perform all other duties prescribed by the Board or prescribed elsewhere in these By-Laws.

Section 5. The vice-president shall be elected by the Board of Directors from among its members. No person shall be eligible to be elected to the office of vice-president unless such person is, at the time of such election, a resident member of the Fallsmead Homes Corporation.

Section 6. In the event that the president is unavailable or otherwise unable to perform the duties of his office, the vice-president shall have the powers and perform the duties of the office of the president until such time as the president is available and able to resume the duties of the office or until the Board of Directors elects a successor to the office of president.

Section 7. The secretary shall be elected by the Board of Directors from among its members. No person shall be eligible to be elected to the office of secretary unless such person is, at the time of such election, a resident member of the Fallsmead Homes Corporation.

Section 8. The secretary shall be, ex-officio, the secretary of the Board of Directors, and shall record the votes and keep the minutes of all proceedings of the Board in a book to be kept for that purpose. The secretary shall sign all certificates of membership, keep the records of the Corporation and shall record in an appropriate book the names of all Members of the Corporation together with their addresses as registered by such Members. The secretary shall also serve as secretary for all meetings of the membership. The secretary may, with the consent of the Board of Directors, delegate any of the secretary's powers or responsibilities to any other member or members of the Fallsmead Homes Corporation.

Section 9. The treasurer shall be elected by the Board of Directors from among the Members of the Fallsmead Homes Corporation. The treasurer shall serve in office for a term of one (1) year, and shall be entitled to serve for as many consecutive terms as the Board of Directors may determine.

Section 10. The treasurer shall receive and deposit in appropriate bank accounts all monies of the Corporation and shall disburse such funds as directed by resolution of the Board of Directors, provided however, that a resolution of the Board of Directors shall not be necessary for disbursements made in the ordinary course of business conducted within the limits of a budget adopted by the Board. All checks and notes of the Corporation shall be prepared and signed as determined by resolution of the Board of Directors.

Section 11. The treasurer shall keep proper books of account and cause an annual audit of the Corporation books to be made by a certified public accountant at the completion of each fiscal year. He shall prepare an annual budget and an annual balance sheet statement and the budget and balance sheet statement shall be presented to the membership at its regular annual meeting. Upon written request by any member directed to the treasurer, the treasurer shall promptly, but in no event more than thirty (30) days after receipt of such request, make the said Corporation books of account available for inspection by the requesting member.

Section 12. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board.

Any officer may resign at any time by giving written notice to the Board of Directors or to the president or to the secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary or requisite to make it effective.

Section 13. A vacancy in any office because of death, resignation, removal, disqualification or any other cause, shall be filled in the manner prescribed in the By-Laws for regular appointment to such office.

Section 14. No person may hold any more than one office in the Corporation at the same time. This provision does not prohibit the vice-president from exercising the powers and performing the duties of the president under the circumstances set forth in Article IV, Section 6, of these By-Laws.

Section 15. In addition to those specific duties listed above in this Article, each officer shall perform such other duties as the Board of Directors may by resolution determine to be appropriate.

ARTICLE V.

Meetings of the members

Section 1. Regular Meetings.

The Board of Directors will hold two meetings of the Corporation each year. The Annual Meeting shall be held between January 1st and the last day of February. The other regular meeting shall be held in October.

Section 2. October Meeting.

The October meeting shall be held for the purpose of (1) submission of a working budget for the next fiscal year to the Members for their comments, (2) introduction of candidates for the next Board of Directors election, (3) presentation of a "State-of-the-Community" report on the activities of Fallsmead during the current fiscal year and (4) presentation of other items as required.

Section 3. Annual Meeting.

The Annual Meeting shall be held for the purpose of (1) introduction of new members of the Board of Directors, (2) announcement of new officers, (3) committee reports, (4) presentation of the budget for the current fiscal year (5) the auditor's report. This meeting will also provide agenda items for old and new business. Other items as required will be presented.

Section 4. Special Meetings.

Special meetings may be called at any time by (1) a majority vote of a quorum of the Board of Directors or (2) by a petition representing sixty (60) private dwelling units presented to the President of the Board of Directors stating the items to be discussed. Announcement of special meetings shall be distributed to the community as outlined in this Article, Section 5. The agenda for the special meeting will be announced in the meeting notice and discussion at this meeting will be limited to the topic or topics that have necessitated the special meeting.

Section 5. Notice of Meetings.

All meetings must be announced by written notice to be delivered to each residence not less than fifteen days in advance of the meeting. The meeting announcement will include date, time, place and agenda.

Section 6. Quorum.

Votes representing sixty (60) private dwelling units as defined in Article III, Section 2, of these By-Laws shall constitute a quorum necessary to conduct business of the Fallsmead Homes Corporation at any regular or special meeting of the Members. If a quorum is not present at a meeting of the Members, the meeting will still constitute fulfillment of the Board of Directors' obligation to hold that particular meeting. In the absence of a quorum, items may be discussed and reports given but no official votes may be taken.

If the required quorum is not forthcoming at any meeting, another meeting may be called subject to the notice requirements set forth in Section 5 of this Article, and the required quorum at any such subsequent meeting shall be one-half (1/2) of the required quorum at the preceding meeting, provided that no such subsequent meeting shall be held more than sixty (60) days following the preceding meeting.

ARTICLE VI.

Board of Directors

Section 1. The business and affairs of the Corporation shall be managed by a Board of nine (9) Directors who shall be members of the Corporation. Each Director shall serve a term that commences January 1 of the year following his or her election and is three (3) years duration, or until a successor is chosen.

Section 2. Once each year, and in accordance with Article X of these By-Laws, the membership of the Corporation shall elect three (3) directors, and as necessary, fill unexpired terms created by vacancies.

Vacancies on the Board shall be filled temporarily by a majority vote by secret ballot of the remaining directors. Any director so elected shall hold office until the next regular election of directors. When practical, notification of vacancies shall be distributed to the Membership of the Corporation by the Board and members shall be encouraged to place their names in nomination for the vacancies to be filled.

Section 3. The Board of Directors shall have power to:

- (a) take actions as necessary to fulfill its management responsibility under Section 1 of this Article, provided such actions are not contrary to the Articles of Incorporation, Declaration of Covenants, or By-Laws of the Corporation, or to duly adopted resolutions of the Corporation membership;
- (b) appoint and remove at pleasure all officers, agents and employees of the Corporation, prescribe their duties, fix their compensation, and require of them such security or fidelity bond as it may deem expedient;
- (c) establish, levy and assess and collect the assessments or charges;
- (d) adopt, publish and enforce rules and regulations governing the use of the Community Properties and facilities and the personal conduct of the Members and their guests thereon and to establish penalties for any violation thereof;
- (e) exercise for the Corporation all powers, duties and authority vested in or delegated to this Corporation, except those reserved to the Members;
- (f) declare the office of a member of the Board of Directors to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board.

Section 4. It shall be the duty of the Board of Directors to:

- (a) hold meetings of the Membership of the Corporation in accordance with Article V of these By-Laws;
- (b) act promptly in accordance with all duly adopted resolutions of the Corporation membership;
- (c) cause a complete record of all its acts and corporate affairs to be kept, present a statement thereof to the Members at regular and special meetings of the Membership and cause a summary of the minutes of each meeting of the Board of Directors and of the Membership to be published and distributed to the Membership within sixty days of each meeting;
- (d) supervise all officers, agents and employees of this Corporation to see that their duties are properly performed;
- (e) fix the amount of the assessment or charge against each Private Dwelling Unit for each assessment period as provided in Article V, Declaration of Covenants. The Board of Directors will notify the members in writing of the amount of annual assessment at least thirty (30) days prior to the Annual Meeting. The Corporation fiscal year is the calendar year and is composed

of four (4) quarters which begin on the first day of January, April, July and October. The Board of Directors may change the annual assessment during the course of the calendar year by giving written notice to the members at least sixty (60) days before the quarter in which the new assessment is to take effect;

(f) procure and maintain adequate liability insurance covering the Corporation, its Directors, officers, agents and employees and procure and maintain adequate hazard insurance on such of the Corporation's real and personal properties as deemed appropriate by the Board;

(g) provide for the maintenance of all Community Properties and facilities;

(h) appoint the membership of all committees as required by these By-Laws as well as any additional committees that may be necessary for the Board to fulfill its responsibilities, and diligently supervise the activities of said committees;

(i) prepare a roster of all properties within Fallsmead and assessments or charges applicable thereto which shall be kept in the office of the Corporation;

(j) issue, or to cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether any assessment or charge has been paid. A reasonable charge may be made by the Board for the issuance of the certificate. Such certificate shall be conclusive evidence of any assessment or charge therein stated to have been paid.

Section 5. Regular meetings of the Board of Directors shall be held at least every two months. The meetings shall follow a consistent schedule as to time and day of the week, said schedule to be determined by the Board promptly after the regular annual election of directors and shall be announced at each membership meeting. The place of each meeting shall be determined by the Board.

Section 6. Notice of regular meetings is dispensed with. If the day for the regular meeting shall fall upon a legal holiday, the meeting shall be held at the same hour on the first day following which is not a Saturday, Sunday or legal holiday, and no notice thereof need be given the Directors.

Section 7. Special meetings of the Board of Directors shall be held when called by the president or vice-president of the Corporation or by any two (2) Directors after not less than three (3) days' notice in writing to all Directors which shall be delivered to the residences of the Directors at their addresses appearing on the Corporation's records. The notice shall state the specific matters to be covered during the meeting and the meeting shall be limited to those matters. Notices shall be given by the person or persons calling the meeting who also shall post a copy of each such notice on the bulletin board at the tennis courts no later than two (2) days prior to the meeting.

Section 8. A majority of the Board of Directors shall constitute a quorum thereof and the act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. The Board shall seek the views of Members of the Corporation on matters of importance to the Fallsmead community or to Members individually. Towards this end, the Board shall have the power to invite Members to attend part or all of the meetings of the Board.

Section 10. A meeting may be adjourned to a specified date by the resolution of the Board for the purpose of completing actions on agenda items. When a meeting is so adjourned, the Secretary shall ensure that all Directors have prompt notification of the new meeting time and planned agenda.

Section 11. The Board of Directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the prior written approval of all Directors. Any action so approved shall have the same effect as though taken at a meeting of the Directors.

ARTICLE VII.

Committees

Section 1. The standing committees of the Fallsmead Homes Corporation shall be:

Nominating and Balloting Committee
Financial Committee
Grounds and Maintenance Committee
Recreation Committee
Publicity Committee

(a) Each committee shall consist of a chairman, who may or may not, be a member of the Board of Directors, and at least two (2) other members in good standing;

(b) all committee chairmen shall be appointed by the Board of Directors, and shall serve for a term of one (1) year;

(c) each committee shall formulate, subject to approval of the Board of Directors, rules and regulations concerning its jurisdiction. These rules will be available to the membership on request;

(d) it shall be the duty of each committee to receive suggestions from members on any matter involving Corporation duties and activities within its field of responsibility;

(e) special committees may be established by the Board of Directors as it deems necessary;

(f) in addition to those specific duties listed in this Article, each committee shall perform such other duties as the Board of Directors may, by resolution, determine to be appropriate.

Section 2. Nominating and Balloting Committee

(a) The Nominating and Balloting Committee shall present all nominees for office of the Board of Directors, and shall conduct all elections and referenda as described in Article X of these By-Laws.

(b) whenever the nature of balloting or election procedures are not set forth herein, the Nominating and Balloting Committee shall, after approval from the Board of Directors, have authority to take such action as it deems proper in order to expedite its delegated responsibilities.

Section 3. Financial Committee

(a) The Financial Committee shall study, recommend, and review the business transactions of Fallsmead Homes Corporation, with regard to budget and financial involvement;

(b) this committee shall assist the Treasurer in preparing a budget for submission to the Board of Directors for revision and final approval by the Board.

(c) the Financial Committee shall have the power to approve or disapprove the selection of a C.P.A., made by the Treasurer of the Fallsmead Homes Corporation, pursuant to Article IV, Section 11 of these By-Laws.

(d) the Fallsmead Corporation Treasurer shall be a permanent member of this committee.

Section 4. Grounds and Maintenance

This committee shall be responsible for the upkeep, maintenance, repair, and improvement of all community properties and facilities.

Section 5. Recreation Committee

The Recreation Committee shall study, oversee, and recommend practices and procedures concerning social and other recreational activities including use of all recreational facilities within Fallsmead.

Section 6. Publicity Committee

The Publicity Committee shall inform the Members of activities and functions of the Corporation and shall, after receiving approval from the Board of Directors, make public releases and announcements which may be of interest to the Membership.

ARTICLE VIII.

Parliamentary Authority

Robert's Rules of Order as revised shall be the procedure observed for conducting meetings of the membership, Board of Directors and committees of the corporation except as otherwise provided in the Declaration of Covenants, Articles of Incorporation or these By-Laws.

ARTICLE IX.

Amendments

Section 1. These By-Laws may be altered, amended or repealed by written ballot according to the procedure provided in Article X, Section 2 of these By-Laws. A simple majority of the ballots cast is required.

Section 2. Any matter governed by the Declaration of Covenants or the Articles of Incorporation which is also contained in these By-Laws may not be amended except as provided in the Declaration of Covenants or the Articles of Incorporation.

ARTICLE X.

Voting

Section 1. Nominations and Elections for the Board of Directors

(a) Nomination of Directors

(1) Nominations for positions on the Board of Directors may be made by the membership only, and only members may be nominated. It shall be the duty of the Nominating and Balloting Committee to insure that there are at least as many nominations for the positions of Director as there are vacancies to be filled.

(2) The Nominating and Balloting Committee shall place in nomination and on the ballot as many nominations for director, made in accordance with those By-Laws, as it shall receive from the membership. In addition, the Committee shall make as many other nominations, from consenting members, as it shall in its discretion determine. All nominations, other than those initiated by the Committee, shall be in writing and shall contain the signature of the nominee.

(3) The Nominating and Balloting Committee, in accordance with Article VII, Section 1(c) of these By-Laws may prescribe rules and requirements for the placing of names in nomination, and the withdrawal of nominees, however, the following notice requirements shall always be observed:

The Committee shall cause a notice of the election of directors to be published and distributed to the membership no less than forty-five (45) days prior to the date fixed for the election;

The notice shall include a description of the term of office and the duties of a director;

The notice shall describe plainly the manner in which names may be placed in nomination for election to the position of director, and shall set forth the time by which nominations must be received, and to whom they must be delivered in order for the nominations to be accepted.

(b) Election of Directors

(1) Each year, the Board of Directors shall fix an election date for the election of directors, which shall be the day on which the ballots are to be counted and the results published. The date may be fixed for any time during November.

(2) No less than thirty (30) days prior to the election date, the Nominating and Balloting Committee shall publish and distribute to the membership a ballot containing the names of all those persons who have been nominated as candidates for the position of director in accordance with these By-Laws and such other procedures as may be duly established. In addition, the ballot shall provide clearly defined space to permit the names of candidates, not otherwise in nomination, to be written on the ballot for each of the vacancies to be filled by the election.

(3) The polls shall be open for a period of at least thirty (30) days. The method of casting the ballot during the polling period shall be set forth in the duly adopted procedures of the Nominating and Balloting Committee, and a summary of the ballot-casting method shall be explained in clear and concise language accompanying the ballot.

(4) On the election date, the Nominating and Balloting Committee and the Board of Directors shall gather together all ballots, count them, tally the results, and make the names of the winning candidates available to each candidate. At the time of counting of ballots by the Committee, each nominated candidate shall be entitled to be present, in person or by his proxy, but in no event shall more than one individual representing each nominated candidate be permitted to attend the ballot counting.

(5) The Nominating and Balloting Committee under its authority in these By-Laws shall prescribe procedures for the counting of ballots, and for the manner in which votes are to be cast.

(6) All elections for positions on the Board of Directors shall be by secret ballot, and the Nominating and Balloting Committee shall duly adopt such procedures as are necessary to insure the secrecy of the ballot.

(7) Those candidates receiving the highest number of votes shall be elected to the Board of Directors. In the event of tie votes, the election shall be resolved by the duly established procedures of the Nominating and Balloting Committee. Cumulative voting is not permitted.

Section 2. Referendum by Written Ballot

(a) The Board of Directors may refer any matter or issue to the members for their decision or determination by written secret ballot. Referendum ballots shall be delivered to the members by the Nominating and Balloting Committee within sixty (60) days of one of the following actions:

(1) a resolution of a majority of the Board of Directors, at a duly constituted meeting, which calls for a referendum;

(2) delivery to the Board of Directors of a written petition calling for a referendum and signed by

members representing sixty (60) of the votes entitled to be cast in elections within the corporation; or
(3) the resolution of a majority of the households represented present at a duly constituted regular or special meeting of members.

(b) The Board of Directors will cause to be prepared the referendum document. The Nominating and Balloting Committee shall publish and distribute a written ballot submitting the issue or matter to the members. The ballot shall plainly state the issue, and shall clearly and concisely distinguish between an affirmative or negative vote. Also distributed with the ballot will be a clear, concise, and impartial explanation of the reason for the referendum, its consequences, and the effect thereof on the operations of the Corporation. The Board of Directors and the Nominating and Balloting Committee shall not discourage public discussion.

(c) A majority of the ballots cast shall decide any referendum issue unless the Articles of Incorporation, the Declaration of Covenants and Restrictions of these By-Laws provide otherwise.

(d) The distribution of referendum ballots, voting thereon, their return, and the counting of said ballots shall be conducted in accordance with the provisions of these By-Laws respecting the election of directors, and in accordance with the duly adopted procedures of the Nominating and Balloting Committee.

Section 3. Ballots

Written ballots for the election of directors, and for referenda, shall be delivered, in accordance with established procedures under these By-Laws, to the Fallsmead residences owned by members entitled to vote, unless the members instruct the Nominating and Balloting Committee, in writing signed by the members, to deliver the ballots elsewhere.

The obligation of the Nominating and Balloting Committee in honoring an instruction for delivery of a ballot to a location other than Fallsmead shall be satisfied by the placing of the ballot in the U.S. Mail, addressed to the member at the address supplied in the request. Any ballot which has been cast, but which has not been received by the Nominating and Balloting Committee on or before the election date shall not be counted.

Section 4. Proxy Votes

All proxies shall be in writing and filed with the Secretary of the Fallsmead Homes Corporation at least twenty-four (24) hours before they are to be first exercised. No proxy shall extend beyond a period of eleven (11) months without a written renewal. Proxies will automatically cease and terminate upon sale or transfer by the Member of his home. The exercise of proxy votes is limited to use at meetings of the Members and those specific instances stated in the Declaration of Covenants and these By-Laws. Absentee ballots (Section 3 of this Article) rather than proxy votes will be used in referendum situations. While authorized proxy votes may be cast at Meetings of the Members, they may neither be counted towards a quorum (Article V, Section 6 of

these By-Laws) nor used to alter or change any rules or regulations relating to proxy votes.

ARTICLE XI.

General Provisions

Section 1. Land added to the land located within Fallsmead may be made only in accordance with the provisions of the Declaration of Covenants. Such additions of land, when properly made under the applicable covenants, shall extend the jurisdiction, functions, duties and membership of this Corporation to such properties. Where the Declaration of Covenants requires that certain additions be approved by this Corporation, such approval must have the assent of a majority of the votes entitled to be cast in elections within the corporation by written ballot which shall be mailed or personally delivered to all Members at least thirty (30) days in advance of the canvass thereof. The balloting shall be done as provided in Article X of these By-Laws.

Section 2. Subject to the provisions of the Declaration of Covenants, and to the extent permitted by law, the Corporation may participate in mergers and consolidations with other non-profit corporations or similar organizations organized for the same purposes, provided that any such merger or consolidation shall have the assent of a majority of the votes entitled to be cast in elections within the corporation by written ballot which shall be mailed or personally delivered to all Members at least thirty (30) days in advance of the canvass thereof. The balloting shall be done as provided in Article X of these By-Laws.

Section 3. The Corporation shall have the power to mortgage its properties only to the extent authorized under the Declaration of Covenants.

The total debts of the Corporation, including the principal amount of such mortgages, outstanding at any time, shall not exceed the total of two (2) years' assessments or charges current at that time, provided that authority to exceed said maximum in any particular case may be given by an affirmative vote of a majority of the votes entitled to be cast in elections within the Corporation by written ballot which shall be mailed or personally delivered to all Members at least thirty (30) days in advance of the canvass thereof. The balloting shall be done as provided in Article X of these By-Laws.

Section 4. The Corporation shall have power to dispose of its real properties only as authorized under the Declaration of Covenants or its Articles of Incorporation.

Section 5. The fiscal year of the Corporation shall begin on January 1 and end on December 31 of every year.

Section 6. The books, records and papers of the Corporation shall at all times, during reasonable business hours, be subject to the inspection of any Member.

Section 7. The Corporation shall have a seal in circular form having inscribed within its circumference the full name of the Corporation, the year of its organization and the words "Corporate Seal, Maryland."

Section 8. Every person who acts as a Director or officer of the Corporation shall be indemnified by the Corporation for any judgment or award obtained against him as well as expenses actually and necessarily incurred by him, including legal fees if counsel not provided by the Corporation, in connection with the defense of any claim, action, suit or proceeding in which he is made a party by reason of his being or having been a Director or officer of the Corporation, except in relation to matters as to which he shall be adjudged or determined in such claim, action, suit or proceeding to have acted in bad faith and outside the scope of his authority or to have acted in a grossly negligent manner or with willful misconduct. In the event any such claim, action, suit or proceeding is instituted against a Director or officer of the Corporation, the Corporation shall have the right to enter into such settlement or compromise in regard thereto as may be deemed advisable by the Board of Directors.

The right of indemnification provided in this Article shall be in addition to any rights to which any such Director or officer may otherwise be entitled by contract or as a matter of law. Further, nothing herein contained shall be deemed to restrict the right of the Corporation to indemnify the Directors, officers or any agents or employees of the Corporation in such cases as it deems appropriate even though not specifically provided in this Article.

Section 9. As provided in Article VI hereof, the Corporation shall maintain a liability insurance policy with a company authorized to transact business in the State of Maryland. In the event said insurance policy provides a greater degree of protection of the Corporation's Directors, officers, agents and employees, for example, to the extent of covering acts of gross negligence and willful misconduct, nothing in Section 9 of this Article shall be construed as prohibiting such additional protection and indemnification to said Directors, officers, agents and employees, or of relieving the insurance company of the duty to provide the full normal coverage of its policy to said Directors, officers, agents and employees.

Section 10. In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles shall control; and in the case of any conflict between the Articles of Incorporation, these By-Laws and the Declaration of Covenants, the Declaration of Covenants shall control.

Section 11. Nothing contained in these By-Laws shall be construed to prohibit the employment of any Member, officer or Director of the Corporation in any capacity whatsoever.

Section 12. The Replacement Reserve

(a) Definition: The Replacement Reserve shall be established by the Board of Directors and shall be used only to finance the repair and replacement of existing Fallsmead facilities and property. The total amount of the Reserve, annual increases in the Reserve, and disbursements from the Reserve shall be authorized by the Board of Directors.

(b) Investment: The Replacement Reserve shall be invested by the Board of Directors in such a manner that provides maximum security for the principal while providing a reasonable

investment return. Savings certificates and U. S. Government bonds are examples of satisfactory investments. The Replacement Reserve may not be invested in the stock market or other ventures with similar risk factors.

(c) Limitations on Use:

(1) The Replacement Reserve may not be used for the construction of new facilities or the expansion of existing facilities since this would circumvent the procedures prescribed in the Declaration of Covenants, ARTICLE V, Section 4 regarding construction of new capital improvements. An exception to this reserve fund limitation will occur if the new improvement is required by local, state or Federal law.

(2) While the Replacement Reserve may not be used to pay community operating expenses normally financed by the annual assessment, the interest earned on the Replacement Reserve may be used for this purpose if the Board of Directors so desires.