

BY-LAWS

OF

PEPPER TREE AT COVIL ESTATES HOMEOWNERS' ASSOCIATION, INC.

ARTICLE I

GENERAL

Section 1. The Name: the name of the corporation shall be PEPPER TREE AT COVIL ESTATES HOMEOWNERS' ASSOCIATION, INC.

Section 2. Principal Office: The principal office of the corporation shall be 7208 Wrightsville Avenue, Wilmington, NC 28403.

Section 3. Application: All present and future owners, mortgagees, lessees, and occupants of lots in PEPPER TREE AT COVIL ESTATES and their employees and any other persons who may use the facilities in any manner are subject to these By-Laws, the Declaration and Rules and Regulations pertaining to the use and operation of the Association. The act of ownership or occupancy of a lot shall constitute an acceptance of the provisions of these instruments and an agreement to comply therewith.

ARTICLE II.

DEFINITIONS

Section 1. ASSOCIATION shall mean and refer to PEPPER TREE AT COVIL ESTATES HOMEOWNERS' ASSOCIATION, INC., its successors and assigns.

Section 2. PROPERTIES shall mean and refer to that certain real property described in the Declaration of Covenants, Conditions and Restrictions of PEPPER TREE AT COVIL ESTATES and such additions thereto as may hereafter be brought within the jurisdiction of the Association.

Section 3. COMMON AREA shall mean all real property owned by the Association for the common use and enjoyment of the owners.

Section 4. LOT shall mean and refer to any plot of land shown upon any recorded subdivision map of the Properties with the exception of the Common Area.

Section 5. OWNER shall mean and refer to the record owner, whether one or more persons or entities, of fee simple title to any lot which is a part of the Properties, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

Section 6. DECLARANT shall mean and refer to DALLAS HARRIS REAL ESTATE-CONSTRUCTION INCORPORATED, its successors and assigns, if such successors and assigns should acquire more than one undeveloped Lot from the Declarant for the purpose of development.

Section 7. DECLARATION shall mean and refer to the Declaration of Covenants, Conditions and Restrictions applicable to the Properties recorded in the Office of the Register of Deeds of New Hanover County, North Carolina.

Section 8. MEMBER shall mean and refer to those persons entitled to membership in the Association as provided in the Declaration.

Section 9. OTHER DEFINITIONS all definitions set forth in the Declaration shall be applicable herein, unless otherwise defined herein.

ARTICLE III

MEETING OF MEMBERSHIP

Section 1. Place: All meetings of members shall be held at the office of the Association or such other place as may be stated in the notice.

Section 2. Annual Meetings:

- a. The annual meeting of the members shall be held at Wilmington, North Carolina, in each year commencing in 1994; provided, however, that the initial annual membership meeting will not be held until the earlier of (1) the sale by Declarant, as defined in the Declaration, of all lots, or (2) notice by the Declarant. If neither (1) nor (2) has occurred by the first Friday in December, 1993, the first Board of Directors (the "Board") will notify all members that such initial annual meeting has been postponed, and that it will be rescheduled at a later date. If same is rescheduled, the first directors and the officers will hold office until the initial meeting.
- b. Regular annual meetings subsequent to 1994 shall be held on the second Saturday in February in each year, if not a legal holiday, and if a legal holiday, then on the next secular day following, unless otherwise determined by the Board.
- c. All annual meetings shall be held at such hour as is determined by the Board.
- d. At the annual meeting, the members shall elect the new members of the Board of Directors and transact such other business as may properly come before the meeting.
- e. Written notices of the annual meeting shall be served to each member entitled to vote at such address as appears on the books of the Association at least ten but not more than fifty days prior to the meeting. Each member shall notify the Secretary of any address change, and the giving of said notice shall be in all respects sufficient if sent to the address of the member which is then on file with the Secretary.

Section 3. Membership List: At least ten days but not more than fifty days before every election of directors, a complete list of members entitled to vote at such election, with residence of each, shall be prepared by the Secretary. Such list shall be produced and kept open for said ten days prior to and throughout the election at the office of the corporation, and shall be open to examination by any member throughout such time.

Section 4. Special Meetings:

- a. Special meetings of the members, for any purpose or purposes not prescribed by statute, the Articles of Incorporation, or these By-Laws, may be called by the Board of or at the request, in writing, of one third (1/3) of the members. Such request shall state the purpose or purposes of the proposed meeting.
- b. Written notice of a special meeting of members, stating the time, place and object thereof, shall be served upon or mailed to each member entitled to vote thereat, at such address as appears on the books of the corporation, at least ten days before such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States Mail, postage prepaid, addressed to the

member at such address as appears on the records of the Association.

Section 5. Quorum: Over fifty per cent of the total number of members of the corporation, present in person or represented by written proxy, shall be requisite to and shall constitute a quorum at all meetings of the members for the transaction of business, except as otherwise provided by statute, by the Articles of Incorporation or by these By-Laws. If, however, such quorum shall not be present or represented at a meeting of the members, the members entitled to vote thereat, present in person or represented by written proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At any such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally called. If adjournment extends past thirty days, notice of the date on which the adjourned meeting is to be reconvened shall be given as herein provided for regular meetings.

Section 6. VOTE REQUIRED TO TRANSACT BUSINESS: When a quorum is present at any meeting, a majority of the votes cast, in person or represented by written proxy filed with the Secretary in advance of the meeting, shall decide any question brought before the meeting, unless the question is one upon which, by express provision of the statutes, the Declaration of Restrictions, or these By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. There shall be no cumulative voting.

Section 7. RIGHT TO VOTE: Each owner shall be entitled to one vote. At any meeting of the members, every member having the right to vote shall be entitled to vote in person or by proxy. Such proxy shall only be valid for such meeting or subsequent adjourned meetings thereof. If more than one person or entity owns a lot, the co-owners shall file a certificate with the Secretary naming the person authorized to cast votes for said unit. If same is not on file, the vote of any co-owner present who is acceptable to other co-owners of that unit present shall be accepted as the vote of all co-owners. Any legal entity which is an owner shall have the right to membership in the corporation.

Section 8. WAIVER AND CONSENT: Whenever the vote of members at a meeting is required or permitted by a provision of the statutes, the Declaration of Restrictions, or these By-Laws to be taken in connection with any action of the corporation, the meeting and vote of members may be dispensed with if all members who would have been entitled to vote upon the action of such meeting if such meeting were held shall consent in writing to such action being taken.

Section 9. Order of Business: The order of business at annual members' meetings and as far as practical as other members' meetings, shall be:

1. Roll call and certification of proxies.
2. Proof of notice of meeting or waivers of notice.
3. Reading of minutes of prior meeting.
4. Officers' reports.
5. Committee reports.
6. Appointment by Chairman of Inspectors of Election;
7. Approval of budget.
8. Elections of directors and officers.
9. Unfinished business.
10. New business.
11. Adjournment.

Robert's Rules of Order shall be applicable to the conduct of all meetings of members.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. Number and Term: The number of Directors which shall constitute the Board of Directors (the "Board") shall be not less than three and not more than seven, except that until the first annual meeting, the initial Board of Directors shall consist of three members. Within the limits above specified, the number of directors shall be determined by the members at the annual meeting; the Directors shall initially be elected to serve staggered terms, i.e., one for three years, one for two years, one for one year, etc., and they shall serve until their successors shall be elected and qualify. Thereafter, each director shall be elected for a term of two years.

Section 2. Vacancy and Replacement: If the office of any director becomes vacant by reason of transfer of ownership, death, resignation, retirement, disqualification, removal from office or otherwise, a majority of the remaining directors, though less than a quorum, at a special meeting of directors duly called for this purpose, shall choose a successor or successors, who shall hold office for the unexpired term in respect to which such vacancy occurred.

Section 3. Removal: Directors may be removed with or without cause by an affirmative vote of a majority of the total membership. No Director shall serve on the Board after his membership in the Association shall be terminated for any reason whatsoever.

Section 4. First Board of Directors: The first Board shall consist of Dallas L. Harris, Rodney Q. Harris, and Melinda Kay Reece, who shall hold office and exercise all powers of the Board until the initial annual membership meeting, anything herein to the contrary notwithstanding; provided, any or all of said directors shall be subject to replacement in the event of resignation or death as above provided.

Section 5. Powers and Duties: The property and business of the corporation shall be managed by the Board, which may exercise all corporate powers not specifically prohibited by the statute, the Articles of Incorporation, or the Declaration. The powers of the Board shall specifically include, but not be limited to the following:

a. To make and collect regular and special assessments and establish the time within which payment of same are due.

b. To adopt and publish Rules and Regulations governing the use of the common area and facilities, and the personal conduct of the members and their guests thereon, and to establish penalties for the infraction thereof.

c. To suspend the voting rights and right to use the recreational facilities of a member during any period in which such member shall be in default in the payment of any assessment levied by the Association. Such rights may also be suspended after notice and hearing, for a period not to exceed sixty (60) days for infraction of published Rules and Regulations.

d. To exercise for the Association all powers, duties and authority vested in or delegated to this Association and not reserved to the membership by other provisions of these By-Laws, the Articles of Incorporation, or the Declaration.

e. To declare the office of a member of the Board of Directors to be vacant in the event such member shall be absent from these three (3) consecutive regular meetings of the Board of Directors.

f. To purchase the necessary equipment and tools required in the maintenance, care and preservation of the property of the Association.

g. To insure and keep insured the property of the Association in the manner set forth in the Declaration against loss from fire and/or other casualty, and the Association against public liability, and to purchase such other insurance as the Board may deem advisable.

h. To collect delinquent assessments by suit or otherwise, abate nuisances and enjoin or seek damages from members or any person for violation of these By-Laws and the terms and conditions of the Declaration.

i. To employ and compensate such personnel as may be required for the maintenance and preservation of the property.

j. To acquire, own, hold, pledge, sell or transfer lots in the name of the Association or its designee.

k. To contract for management of the Association and to delegate to such other party all powers and duties of the Association except those specifically required by the Declaration to have specific approval of the Board or members.

l. To impose a special assessment (against any owner), not to exceed fifty dollars for each occurrence, for the violation by the owner or his guests of any Rule or Regulation adopted by the Board or the breach of a any By-Law contained herein, or the breach of any provision of the Declaration. Such assessment shall be in addition to any costs incurred or to be incurred by the Association as a result of the violation of the rules, regulations, By-Laws, or provisions.

m. To use and expend the assessments collected to maintain, care for and preserve the common areas and facilities, except those portions thereof which are required to be maintained, cared for and preserved by the owners.

n. To carry out the obligations of the Association under any restrictions and/or covenants running with any land submitted to the ownership of this Association or its members.

Section 6. Liability: The directors shall not be liable to the owners for any mistake of judgment, negligence, or otherwise except for their own individual willful misconduct, bad faith, or gross negligence.

Section 7. Compensation: Neither directors no officers shall receive compensation for their services as such, provided that the corporation may budget such sums as it may deem appropriate for direct reimbursement of actual expenses incurred by the directors or officers in behalf of the corporation.

Section 8. Meetings:

a. The first meeting of each Board newly elected by the members shall be held immediately upon adjournment of the meeting at which they were elected, provided a quorum shall then be present, or as soon thereafter as may be practicable. The annual meeting of the Board shall be held at the same place as the general members' meeting, and immediately before of after the adjournment of same.

b. Special meetings shall be held whenever called at the direction of the President or a majority of the Board. The Secretary shall give notice of each special meeting either personally, by mail or telegram, at least three days before the date of such meeting, but the directors may, in writing, waive

notice of the calling of the meeting, before or after such meeting.

c. A majority of the Board shall be necessary and sufficient at all meetings to constitute a quorum for the transaction of business, and the act of a majority present at any meeting at which there is a quorum shall be the act of the Board. If a quorum shall not be present at the meeting, the directors then present may adjourn the meeting without notice other than announcement at the meeting.

d. Action taken by a majority of the Directors without a meeting shall constitute Board action if written consent to the action in question is signed by all the Directors and filed with the minutes of the proceedings of the Board, whether done before or after the action so taken.

Section 9. Order of Business: The order of business at all meetings of the Board shall be as follows:

- a. Roll call;
- b. Proof of notice of meeting or waiver of notices;
- c. Reading of Minutes of last meeting;
- d. Consideration of communications;
- e. Elections of necessary directors and officers;
- f. Reports of officers and employees;
- g. Reports of committees;
- h. Unfinished business;
- i. Original resolutions and new business;
- j. Adjournment.

Section 10. Annual Statement: The Board shall present, no less often than at the annual meeting, a full and clear statement of the business and condition of the Association, including a report of the operating expenses of the Association and the assessments paid by each member.

ARTICLE V

OFFICERS

Section 1. Executive Officers: The executive officers of the corporation shall be a President, Vice President, Secretary and Treasurer; all of whom shall be elected annually by the Board from the Membership. No two offices may be united in one person. If the Board so determines, there may be more than one Vice President. Any or all officers may also be directors of the corporation.

Section 2. Subordinate Officers: The Board may appoint such other officers and agents from the membership as they may deem necessary, who shall have such authority and perform such duties as from time to time may be prescribed by said Board.

Section 3. Tenure of Officers - Removal: All officers shall be subject to removal, with or without cause, at any time by action of the Board. The Board may delegate powers of removal of subordinate officers and agents to any officer.

Section 4. The President:

a. The President shall preside at all meetings of the members and directors; he shall have general and active management of the business of the corporation; he shall see that all orders and resolutions of the Board are carried into effect; he shall execute bonds, mortgages, deeds of trust and other contracts requiring a seal, under the seal of the corporation.

b. He shall have general superintendence and direction of all the other officers of the corporation, and shall see that their duties are performed properly.

c. He shall submit a report of the operations of the

corporation for the fiscal year to the directors whenever called for by them, and to the members at the annual meeting, and from time to time shall report to the Board all matters within his knowledge which the interest of the corporation may require to be brought to their notice.

d. He shall be an ex-officio member of all committees, and shall have the general powers and duties of supervision and management usually vested in the office of the President of a corporation.

Section 5. The Secretary:

a. The Secretary shall keep the minutes of the members' and of the Board's meetings in one or more books provided for that purpose.

b. He shall see that all notices are fully give in accordance with the provisions of these By-Laws or as required by law.

c. He shall be custodian of the corporate records and of the seal of the corporation and shall see that the seal of the corporation is affixed to all documents, the execution of which on behalf of the corporation under its seal is duly authorized with the provision the these By-Laws.

d. He shall keep a register of the post office address of each member, which shall be furnished to Secretary by such member.

e. In general, he shall perform all duties incidental to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 6. The Vice President-Treasurer:

a. The Vice President and Treasurer shall be vested with all the powers and required to perform all the duties of the President in his absence, and such other duties as may be prescribed by the Board.

b. He shall keep full and accurate accounts or receipts and disbursements in books belonging to the corporation, and shall deposit all monies and other valuable effects in the name and to the credit of the corporation, in such depositories as may be designated by the Board.

c. He shall disburse the funds of the corporation as ordered by the Board, taking proper vouchers for such disbursements, and shall render the President and directors, at the regular meetings of the Board, or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the corporation. Such records shall be open to inspection by members at reasonable times.

d. He may be required to give the Association, at the Association's cost, a bond in a sum and with one or more sureties satisfactory to the Board, for the faithful performance of the duties of his office, and the restoration to the Association in case of his death, resignation or removal from office, of all books papers, vouchers, money or other property of whatever kind in his possession belonging to the Association.

e. He shall maintain a register for the names of any mortgage holders or lien holders on lots who have requested in writing that they be registered and to whom the Association will give notice of default in case of non-payment of assessments. No responsibility of the corporation is assumed with respect to said register except that it will give notice of default of any owner in his obligations to the corporation to any registered mortgagee or lienor therein, if so requested by said mortgagee or lienor.

f. With the approval of the Board, he shall be authorized to delegate all or part of his responsibilities to competent accounting, collection or management personnel, pursuant to written definition of the responsibilities delegated to, and the condition of performance imposed upon, such personnel; but, in such event, the Treasurer shall retain supervisory responsibilities.

Section 7. Vacancies: If the office of any director or officer becomes vacant by reason of death, resignation, disqualification or otherwise, the remaining directors, by a majority vote of the remaining directors provided for in these By-Laws, may choose a successor or successors who shall hold office for the unexpired term. If the number of directors falls below three, a special members' meeting shall be called for the purpose of filling such vacancies in the Board of Directors.

Section 8. Resignations: Any director or officer may resign his office at any time, such resignation to be made in writing, and to take effect from the time of its receipt by the Board of Directors, unless some later time be fixed in the resignation, and then from that date. The acceptance of a resignation by the Board shall not be required to make it effective.

ARTICLE VI

NOTICES

Section 1. Definition: Whenever under the provisions of the statutes, the Declaration of Restrictions, the Articles of Incorporation, or these By-Laws, notice is required to be given to any director or member, it shall not be construed to mean personal notice, but such notice may be given in writing by mail, by depositing the same in a post office or letter box in a postpaid, sealed envelope, addressed as appears on the books of the corporation.

Section 2. Service of Notice - Waiver: Whenever any notice is required to be given under the provisions of the statutes, the Declaration of Restrictions, the Articles of Incorporation, or these By-Laws, a waiver thereof, in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed the equivalent thereof.

Section 3. Address: The address for notice of the corporation shall be that of the Registered Agent for service of process on the corporation.

ARTICLE VII

FINANCES

Section 1. Fiscal Year: The fiscal year shall be the calendar year.

Section 2. Checks: All checks or demands for money and notes of the corporation shall be signed by any one of the following officers: President, Secretary, or Vice President and Treasurer, or by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Determination of assessments:

a. The Board shall determine from time to time the sum or sums necessary and adequate for the common expense of the condominium property. At the annual meeting of the corporation, such budget shall be submitted to the members for approval. as approved, the budget shall constitute the basis for all regular assessments for common expenses against unit owners, which assessments shall be due and payable periodically as determined by

the Board. Common expenses shall include expenses for the operation, maintenance, repair or replacement of the common areas, costs of carrying out the powers and duties of the corporation, all insurance premiums and expenses relating thereto, and any other expenses designated as common expense from time to time by the Board of Directors of the corporation.

b. The Board is specifically empowered on behalf of the Association to make and collect assessments and to maintain, repair, renovate and replace any of the property of the Association. Assessments shall be payable periodically as determined by the Board.

c. Special assessments as described in the Declaration may be imposed by the Board as authorized in and by the Declaration; and such special assessments shall be levied and paid by the members in the same manner as provided herein for regular annual assessments, subject to the provisions of the Declaration.

d. When the Board has determined the amount of any assessment, the Vice President and Treasurer of the Corporation (or the personnel to whom such authority has been delegated) shall mail or present a statement of the assessment to each of the assessed owners. All assessments shall be payable to the corporation, and upon request, the Vice President-Treasurer or his designated agent shall give a receipt for each payment made.

e. The Board may enter into a management contract with third parties to whom the Board may delegate the power to levy and collect assessments approved by the Board or required by the Declaration of Restrictions.

f. All assessments not paid when due shall bear interest at such rate as is determined by the Board of Directors, not to exceed the maximum permissible rate allowed by law.

Section 4. Excess of Assessments: In any year in which there is an excess of assessments received over amounts actually used or payable for the purposes described in these By-Laws and in the Declaration, such excess shall, unless otherwise determined by the Board of Directors of the Association, be deposited in a capital reserve account for use in replacement, repair or maintenance of the common areas of the Association.

Section 5. Non-Profit Corporation: The seal of the corporation shall have inscribed thereon the name of the corporation, and the words "Corporate Seal". Said seal may be used by causing it to be impressed, affixed, reproduced or otherwise.

ARTICLE VIII

DEFAULT

Section 1. Enforcement of Lien for Assessments: In the event an owner does not pay any sums, charges, or assessments required to be paid to the corporation by the due date, the corporation, acting on its behalf or through its Board, may enforce its lien for assessments, or take such other action to recover the sums, charges or assessments to which it is entitled, in accordance with the Declaration and the statutes made and provided for both.

Section 2. Governmental Liens and Assessments: In the event that an owner fails to pay any tax or assessment lawfully assessed by any governmental subdivision within which the property is situated by the date such tax or assessment is due, the Board may pay the same from the funds of the corporation and specially assess such owner for the amount paid.

Section 3. Foreclosure: If the corporation becomes the owner of a lot by reason of foreclosure, it shall offer said lot for sale

and at such time as a sale is consummated, it shall deduct from the proceeds of said sale all sums of money due it for assessments and charges, all costs incurred in the bringing of the foreclosure suit, including reasonable attorney's fees, funds necessary to discharge any liens or mortgages of record, and all expenses incurred in the resale of the lot, which shall include but not be limited to advertising expenses real estate brokerage fees and expenses for the lot in question. All monies remaining after deducting the foregoing items of expenses, costs and other deductions shall be returned to the former owner of the subject lot.

Section 4: Other Remedies: In the event of violation of the provisions of the Declaration of Restrictions for thirty days after notice from the Association to the lot owners to correct said violation, the corporation, on its behalf or by and through its Board of Directors, may bring appropriate action to enjoin such violation or may enforce the provisions of said Declaration of Restrictions, or may sue for damages, or take such other courses of action, or other legal remedy as it or they may deem appropriate.

Section 5. Legal Costs. In the event any legal action is brought against any owner and results in a judgment for the corporation, the owner shall pay the corporation's reasonable attorney's fees, costs of collection, and court costs.

Section 6. Intent: Each member, for himself, his heirs, personal representatives, successors and assigns, agrees to the foregoing provisions relating to default and abatement of nuisance, regardless of the availability of the other equally adequate legal procedures. It is the intent of all owners of lots to give the corporation a method and procedure which will enable it at all time to operate on a business-like basis, to collect those monies due and owing it from the owners of lots, and to preserve each member's right to enjoy his membership, free from unreasonable restraint and nuisance.

ARTICLE IX

RULES AND REGULATIONS

In addition to the other provisions of the By-Laws, any Rules and Regulations (adopted by the Board), together with any subsequent changes shall govern, to the extent not inconsistent with these By-Laws and the Declaration, the use of the facilities and property of the Association and the conduct of all members, their assignees, lessees, and guests. Such Rules and Regulations shall be in effect until the first elected Board of Directors' Meeting, at which time they shall be subject to such changes as may be deemed appropriate. Any further modifications in the Rules and Regulations may be made by the Board of Directors in accordance with Article IV, Section 5, of the By-Laws.

ARTICLE X

JOINT OWNERSHIP

Membership may be held in the name of more than one owner. In the event ownership is in more than one person, all of the joint or common owners shall be entitled collectively to only one vote or ballot in the management of the affairs of the Association, and the vote may not be divided between joint or common owners. The manner of determining who shall cast such vote shall be set forth in Article III, Section 7.

ARTICLE XI

INDEMNIFICATION

The Association may indemnify any person made a party to an action by reason of his being or having been a director or officer of the association against the reasonable expenses including attorney's fees actually and necessarily incurred by him in connection with the defense or settlement of such action, or in connection with an appeal therein, except in relation to such matters as to which such director or officer is adjudged to have been guilty of gross negligence or misconduct in the performance of his duty to the association.

ARTICLE XII

AMENDMENT

These By-Laws may be amended at any time by the affirmative vote of two-thirds(2/3) of the members at meeting duly called for that purpose at which a quorum of more than fifty percent (50%) is present in person or by proxy; provided that the notice of such meeting shall contain a copy of the proposed amendment verbatim which has been approved by a majority of the Directors.

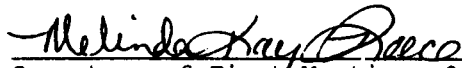
ARTICLE XIII

CONSTRUCTION

Whenever the masculine singular form of the pronoun is used in these By-Laws, it shall be constructed to mean the masculine, feminine or neuter, singular or plural, wherever the context so requires.

The foregoing were adopted as the By-Laws of PEPPER TREE AT COVIL ESTATES HOMEOWNERS' ASSOCIATION, INC. at the meeting of its Board of Directors held on the 16th day of December, 1994.

Certified to be correct, this the 16th day of December, 1994.


Secretary of First Meeting of
Board of Directors
PEPPER TREE AT COVIL ESTATES
HOMEOWNERS' ASSOCIATION, INC.