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BY-LAWS  
of the

CAPTAINS QUARTERS ASSOCIATION, INC.

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ARTICLE I.

General Provisions

Section 1. IDENTITY: These are the By-Laws of the CAPTAINS QUARTERS ASSOCIATION, INC., a Nonprofit Corporation organized pursuant to the laws of the State of North Carolina; the Articles of Incorporation for which have been recorded in Book 1159, at Page 257, of the office of the Register of Deeds of New Hanover County, North Carolina.

Section 2. INCORPORATION: The provisions of these By-Laws supplement and are enacted pursuant to the provisions of the above-referenced Articles of Incorporation and that certain Declaration of Articles of Covenants, Conditions and Restrictions applicable to that residential development more particularly described therein and:

Being all of CAPTAINS QUARTERS located within the Federal Point Township, New Hanover County, North Carolina, and being the same as appears on a map of CAPTAINS QUARTERS recorded in Map Book 19, at Page 48, of the New Hanover County, North Carolina, Registry.

The provisions of said Declaration are incorporated herein and made a part hereof as if fully set forth.

Section 3. APPLICATION: These By-Laws shall, in conjunction with the above-referenced Articles of Incorporation and Declaration, govern the affairs, rights, privileges, duties and obligations of the Association, all owners, the Declarant, all mortgagees, beneficiaries under deeds of trust, lessees and occupants of all lots and townhouses, their employees and all others who may use or enjoy any of the property known as CAPTAINS QUARTERS, and the acceptance of a deed for or conveyance of, or the succeeding to title to, or the entering into of a lease for, or the actual occupancy of, or use of a lot, townhouse, the common elements or any of the improvements thereon by any of the above shall constitute an acceptance by the same of the provisions of these By-Laws, the Rules and Regulations enacted pursuant hereto and the provisions of the herein above referenced Declaration, and an agreement to comply and abide by the same.

Section 4. PRINCIPAL OFFICE: The principal office of the Association and of the Board of Directors shall be located at 501 Lake Park Boulevard, Carolina Beach, New Hanover County, North Carolina, 28428.

ARTICLE II.

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Membership

Section 1. IDENTIFICATION: The Association shall have twenty-four (24) memberships. Each membership shall be appurtenant to and shall not be severed from the fee simple ownership of a lot and townhouse within the development. The rights, duties, obligations, powers and privileges appurtenant to each membership shall be exercised by the fee simple owner of the lot and townhouse to which such membership is appurtenant. Any devise, contract for the sale of, deed, lease or other means of conveyance of any lot and townhouse within the development shall be deemed to include the appurtenant membership in the Association. No portion of the rights, privileges, powers, duties or obligations appurtenant to each membership in the Association may be sold, transferred or otherwise disposed of, except as part of a sale, transfer or other disposition of the lot and townhouse to which such membership is appurtenant.

Section 2. RECORDS: The Secretary of the Association shall maintain at the principal office of the Association a register of all of the current owners of memberships in the Association and the mailing address of each owner and of all mortgagees or beneficiaries under deeds of trust of all lots and townhouses.



Section 3. VOTING RIGHTS: Each membership shall be entitled to one (1) vote in all matters of the Association requiring a vote of the membership. If a membership is owned by one (1) person his right to vote shall be established by the record title to his lot and townhouse. If a membership is owned by more than one person, or is under lease, the person entitled to cast the vote for such membership shall be designated by a certificate signed by all of the record owners of such membership and filed with the Secretary of the Association. If a membership is owned by a corporation, the person entitled to cast the vote for that membership shall be designated by a certificate signed by the President or Vice President and attested by the Secretary or the Assistant Secretary of such corporation and filed with the Secretary of the Association. If a membership is owned by a partnership, whether general or limited, or a joint venture, the certificate designating the voting member shall be signed by all partners or joint venturers, as the case may be. Such certificates shall be valid until revoked or superceded by a subsequent certificate or until a change occurs in the ownership of the membership concerned. A certificate designating the person entitled to cast the vote of a membership may be revoked by any owner of such membership. If such a certificate is not on file, the vote of such membership shall not be considered in determining the requirements for a quorum nor for any other purpose under these By-Laws.

Section 4. MORTGAGEES AND TRUSTEES UNDER DEEDS OF TRUST: In the event that any lot and townhouse are conveyed by mortgage or by deed of trust, then the rights, duties, obligations, powers and privileges appurtenant to the membership appurtenant to such lot and townhouse shall be exercised by the owner of the equity in the lot and townhouse, and not by the mortgagee under any mortgage or the trustee or beneficiary under any deed of trust against such lot and townhouse.

Section 5. ANNUAL MEETINGS: Subject to the provisions of Article VI of these By-Laws, the annual meetings of the Association shall be held on the 15th day of January of each succeeding year unless such date shall occur on a Saturday or Sunday, or legal holiday, in which event, the meeting shall be held on the next succeeding business day. The purpose of the annual meeting shall be for the election of the directors of the Association for the succeeding year and for the transaction of any and all business of the Association as may properly come before the meeting.

Section 6. SPECIAL MEETINGS: It shall be the duty of the President to call a special meeting of the membership if so directed by resolution of the Board of Directors or upon a petition calling for a special meeting presented to the Secretary of the Association and signed by at least twenty-five per cent (25%) of the owners of memberships in the Association. The notice of any special meeting shall state the time, place and purpose of the meeting. No business shall be transacted at a special meeting except as stated in the notice.

Section 7. NOTICE OF MEETINGS: The Secretary shall mail to each owner of a membership in the Association notice of each annual or special meeting of the membership at least ten (10) days but not more than twenty (20) days prior to such meeting, stating the purpose thereof as well as the time and place where it is to be held. Said notice shall be mailed to the address which the owner of each membership has designated to the Secretary and maintained by the Secretary on his current register of owners. The mailing of a notice of meeting in the manner provided in this section shall be considered service of notice.

Section 8. ADJOURNMENT OF MEETINGS: If any meeting of the membership cannot be held because a quorum has not attended, a majority of the membership who are present at such meeting, either in person or by proxy, may adjourn the meeting to a time not more than forty-eight (48) hours from the time the original meeting was called.

Section 9. QUORUM: A quorum at all membership meetings shall consist of persons representing and entitled to cast the vote appurtenant to at least fifty-one per cent (51%) of the memberships in the Association. The acts approved by a majority of the votes present at a meeting at which a quorum is present shall constitute the acts of the membership, except when approval by a greater number of members is required by the Declaration, these By-Laws or by law; but those present at any meeting, though less than a quorum, may adjourn said meeting to a future time.



Section 10. PROXIES: The vote appurtenant to each membership may be cast by the person designated as entitled to cast such vote by proxy. The designation of any such proxy shall be made in writing to the Secretary, and shall be revocable at any time by written notice to the Secretary by the owner of the membership to which said vote is appurtenant. Such proxy shall be valid only for the particular meeting designated in the proxy and must be filed with the Secretary before the appointed time of the meeting or any adjournment of such meeting.

Section 11. PLACE OF MEETINGS: Meetings of the Association's membership shall be held at the principal office of the Association or at such other suitable place convenient to the membership as may be designated by the Board of Directors.

Section 12. ORDER OF BUSINESS: The order of business at all meetings of the Association shall be as follows: (a) roll call, (b) proof of notice of meeting; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) reports of Board of Directors; (f) reports of committees; (g) election of members of the Board of Directors, if necessary; (h) unfinished business; and (i) new business.

### ARTICLE III.

#### Board of Directors

The property, affairs and business of the Association shall be managed by the Board of Directors; provided, however, that the provisions of this Article are subject to the provisions of Article VI of these By-Laws.

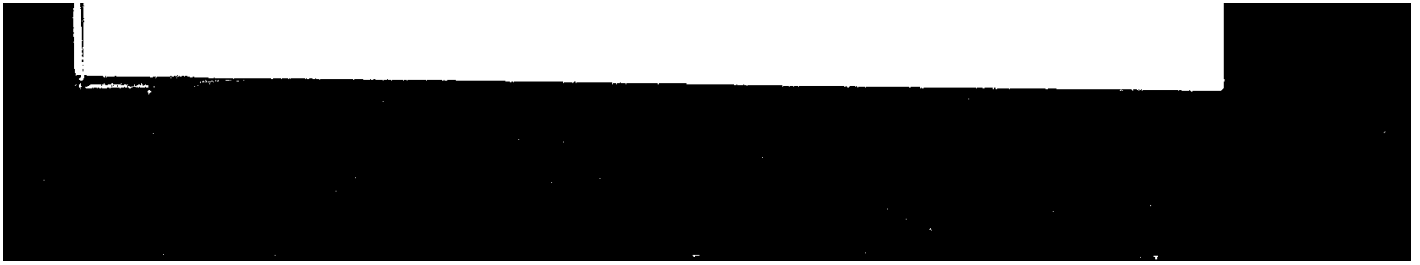
Section 1. NUMBER, TERM OF OFFICE AND QUALIFICATIONS: The number constituting the Board of Directors shall not be fewer than five (5). Each director shall continue in office until the annual meeting of the membership held next after his election and until his successor shall have been elected and qualified or until his death or until he shall resign or shall have become disqualified or removed from office. Directors need not be residents of the State of North Carolina, nor year-round residents of the development; provided however, that each director shall be an owner or spouse of an owner in the development and in the case of partnership owners, shall be a member or employee of such partnership, and in the case of corporate owners, shall be an officer, shareholder, or employee of such corporation, and in the case of fiduciary owners, shall be the fiduciary, or an officer or employee of such fiduciary.

Section 2. ELECTION OF DIRECTORS: The election of the Board of Directors shall be conducted in the following manner: (a) the election of directors shall be held at the annual meeting of the membership; (b) nominations for directorships shall be made from the floor by the membership or by the Board of Directors; (c) the election shall be by written ballot (unless dispensed by unanimous consent) and by a plurality of the votes cast, each person representing a membership entitled to vote being entitled to cast one (1) vote for each of as many nominees as there are directorships to be filled. There shall be no cumulative voting;

Section 3. REMOVAL OF DIRECTORS: Any director may be removed by concurrence of two-thirds (2/3) of the votes of the membership of the Association present at a special meeting of the membership called for the consideration of such removal. The vacancy in the Board of Directors so created shall be filled by the members of the Association at the same meeting.

Section 4. ORGANIZATION MEETING: The organization meeting of a newly elected Board of Directors shall be held within ten (10) days of their election at such place and time as shall be fixed by the directors at the meeting at which they were elected, and no further notice of the organization meeting shall be necessary.

Section 5. REGULAR MEETINGS: Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the members of the Board of Directors, but at least two such meetings shall be held during each fiscal year. Notice of the regular meetings of the Board of Directors shall be given to each member of the Board of Directors, by personal delivery, mail or telegraph, at least five (5) business days prior to the day named for such meetings.



Section 6. SPECIAL MEETINGS: Special meetings of the Board of Directors may be called by the President of the Association on five (5) business days notice to each member of the Board of Directors, given by mail or telegraph, which notice shall state the time, place and purpose of the meeting. Special meetings of the Board of Directors shall be called by the President or Secretary in like manner and on like notices on the written request of any member of the Board of Directors.

Section 7. WAIVER OF NOTICE: Any member of the Board of Directors may, at any time, waive notice of any meeting of the Board of Directors in writing, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a member of the Board of Directors at any meeting of the Board shall constitute a waiver of notice by him of the time and place thereof. If all of the members of the Board of Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

Section 8. QUORUM: At all meetings of the Board of Directors a majority of the members thereof shall constitute a quorum for the transaction of business, and the votes of a majority of the members of the Board of Directors present at such a meeting at which a quorum is present shall constitute the decision of the Board of Directors. If at any meeting of the Board of Directors there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time. At any such adjourned meeting at which a quorum is present any business which might have been transacted at the meeting originally called, may be transacted without further notice.

Section 9. COMPENSATION: No member of the Board of Directors shall receive any compensation from the Association for acting as such.

Section 10. JOINDER IN MEETING BY APPROVAL OF MINUTES: The joinder of a director in the action of a meeting by signing and concurring of the minutes of that meeting shall constitute the presence of such director at such meeting for the purpose of determining a quorum.

Section 11. PRESIDING OFFICER AT DIRECTORS' MEETINGS: The presiding officer of a directors' meeting shall be the President of the Association. In the absence of the presiding officer the directors present shall designate one of their number to preside.

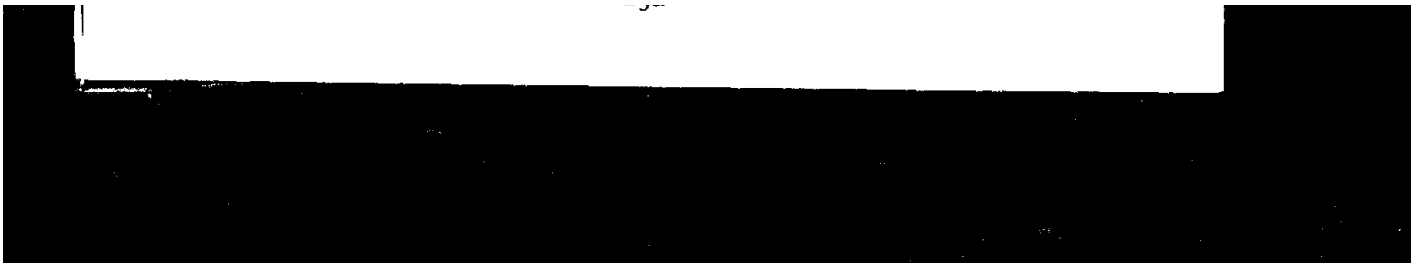
Section 12. ORDER OF BUSINESS AT DIRECTORS' MEETINGS: The order of business at directors' meetings shall be: (a) the calling of the roll; (b) the proof of due notice of the meeting; (c) reading and disposal of any unapproved minutes; (d) the reports of officers and committees; (e) the election of officers; (f) unfinished business; (g) new business; and (h) adjournment.

Section 13. POWERS AND DUTIES: The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association except such powers and duties as by law or by these By-Laws may not be delegated to the Board of Directors by the membership of the Association. The powers and duties to be exercised and performed by the Board of Directors shall include, but shall not be limited to, the following:

- a. the operation, care, upkeep and maintenance of the common elements and the improvements thereon;
- b. the care, upkeep and maintenance of the asphalt shingle roof of each cluster of townhouses and the exterior surfaces of all townhouses;
- c. the determination of the amounts required for the operation, maintenance, care and upkeep of the roofs and exteriors of the townhouses and of the common elements and the improvements thereto, and the amounts required for the general operation of the Association.
- d. the levying and collection of the assessments from the membership owners;
- e. the employment and dismissal of personnel as necessary for the efficient maintenance of the development and operation of the Association;



- f. the adoption and the amendment of rules and regulations governing the operation of the Association and the use and enjoyment of the townhouses and the common elements;
- g. the opening and maintaining of bank accounts on behalf of the Association and designating the signatories required therefor;
- h. the purchasing, leasing or otherwise acquiring in the name of the Association or its designee, corporate or otherwise, on behalf of all members of the Association, lots and townhouses offered for sale or lease;
- i. the purchasing of townhouses and lots at foreclosure or other judicial sales in the name of the Association, or its designee, corporate or otherwise, on behalf of the membership;
- j. the selling, conveying, leasing, mortgaging of, voting the votes appurtenant to (other than for the election of members of the Board of Directors), or otherwise dealing with the lots and townhouses acquired by, and subleasing lots and townhouses by the Board of Directors in behalf of the membership of the Association;
- k. the organizing of corporations to act as designees of the Board of Directors in acquiring title to or leasing lots and townhouses by the Board of Directors on behalf of the membership of the Association;
- l. the purchasing and maintaining of insurance for the lots, townhouses, common elements and the improvements thereto pursuant to the provisions of these By-Laws;
- m. the making of repairs, additions and improvements to, or alterations of, the property, and repairs to and restoration of the property, in accordance with the other provisions of these By-Laws, after damage or destruction by fire or other casualty, or as a result of condemnation or eminent domain proceedings;
- n. the appointing of committees to be comprised of members of the Association to aid in governance of the Association in such numbers and for such specific purposes as the Board may determine necessary and proper;
- o. the adoption of a seal for the Association;
- p. the enforcing of the obligations of the members of the Association, allocating income and expenses of the Association and doing anything and everything else necessary and proper for the sound management of the Association;
- q. the levying of fines or expenses against the members of the Association for violations of the Rules and Regulations established pursuant to these By-Laws to govern the use and enjoyment of the lots, townhouses, common elements and the improvements thereon;
- r. the borrowing of money on behalf of the Association when required in connection with the operation, care, upkeep or maintenance of the lots, townhouses, common elements and the improvements thereon, PROVIDED HOWEVER, that (i) the consent of at least seventy-five per cent (75%) of the entire membership, obtained at a special meeting duly called and held for such purposes in accordance with the provisions of these By-Laws, shall be required for the borrowing of any sum in excess of \$2,500.00, (ii) no lien to secure payment of any sum borrowed may be created on any of the lots and townhouses without the written consent of each owner thereof, or on any of the common elements or the improvements thereon without the consent of at least seventy-five per cent (75%) of the entire membership, obtained at a special meeting duly called and held for such purpose in accordance with the provisions of these By-Laws, and (iii) the owner of any townhouse and lot will not be liable for payment of any portion of any such loans. If any sum borrowed by the Board of Directors on behalf of the Association pursuant to the authority contained in this paragraph (r) is not repaid by the Board, an owner of a lot and townhouse who pays to the creditor such proportion thereof as his interest in the Association bears to the interests of all members of the Association in the Association shall be entitled to obtain from the creditor a release from the lien of any mortgage, deed of trust, or judgment or other lien of whatever nature owned or held by such creditor against such owner's lot and townhouse.



s. adjusting and settling claims under insurance policies obtained pursuant to the By-Laws and executing and delivering releases on settlements of such claims on behalf of all lot and townhouse owners, all holders of mortgages, deeds of trust or other liens on the lots and townhouses and all owners of any other interest in the property;

Section 14. LIABILITY OF THE BOARD OF DIRECTORS: The members of the Board of Directors shall not be liable to the Association or any of its members for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The members of the Association shall indemnify and hold harmless each member of the Board of Directors against all contractual liability to others arising out of contracts made by the Board of Directors on behalf of the Association unless any such contract shall have been made in bad faith or contrary to the provisions of the Articles of Incorporation, the Declaration or these By-Laws. It is intended that the members of the Board of Directors shall have no personal liability with respect to any contract made by them on behalf of the Association. It is also intended that the liability of any member of the Association arising out of any contract made by the Board of Directors or out of the indemnity in favor of the members of the Board of Directors shall be limited to such proportions of the total liability thereunder as his interest in the Association bears to the interest of all members of the Association in the Association. Every agreement made by the Board of Directors on behalf of the Association shall provide that the members of the Board of Directors are acting only as agents for the Association and shall have no personal liability thereunder (except as members of the Association), and that each member of the Association's liability thereunder shall be limited to such proportion of the total liability thereunder as his interest in the Association bears to the interest of all members in the Association in the Association.

Section 15. FIDELITY BONDS: The Board of Directors shall obtain adequate fidelity bonds for all officers and employees of the Association. The premiums on such bonds shall constitute an expense of operating the affairs of the Association.

#### ARTICLE IV.

##### Officers

Section 1. DESIGNATION: The principal officers of the Association shall be the President, the Vice President, the Secretary and the Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer and Assistant Secretary, and such other officers as in its judgment may be necessary. The President and Vice President must be members of the Board of Directors. All other officers need not be members of the Board of Directors or of the Association.

Section 2. ELECTION OF OFFICERS: Officers shall be elected annually by the Board of Directors at the organization meeting of each new Board of Directors and shall hold office at the pleasure of the Board of Directors and until their successors are elected.

Section 3. REMOVAL OF OFFICERS: Upon the affirmative vote of a majority of the members of the Association or members of the Board of Directors, any officer may be removed, either with or without cause; and his successor may be elected at any regular meeting of the Board of Directors or at any special meeting of the Board of Directors called for such purpose.

Section 4. PRESIDENT: The President shall be the chief executive officer of the Association. He shall preside at all meetings of the membership and at all meetings of the Board of Directors. He shall have all of the general powers and duties which are incident to the office of President of a corporation organized under the Business Corporation Laws of the State of North Carolina including, but not limited to, the power to appoint from among the membership any committee which he deems appropriate to assist in the conduct of the affairs of the Association.

Section 5. VICE PRESIDENT: The Vice President shall take the place of the President and perform his duties whenever the President shall be absent or unable to act. If neither the President or Vice President is able to act, the Board of Directors shall appoint some other member of the Board of Directors to act in the place of the President, on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors or by the President.



Section 6. SECRETARY: The Secretary shall keep the minutes of all meetings of the membership and of the Board of Directors; he shall have charge of all books, papers, accounts and records of the Board of Directors as the Board of Directors may direct; and he shall, in general, perform all of the duties incident to the office of Secretary of a corporation organized under the Business Corporation laws of the State of North Carolina.

Section 7. TREASURER: The Treasurer shall have the responsibility for Association funds and securities and shall be responsible for keeping full and accurate financial records and books of accounts showing all receipts and disbursements, and for the preparation of all required financial statements. He shall be responsible for the deposit of all monies and other valuable effects in the name of the Board of Directors, in such depositories as may from time to time be designated by the Board of Directors, and he shall, in general, perform all of the duties incident to the office of Treasurer of a corporation organized under the Business Corporation laws of the State of North Carolina.

Section 8. COMPENSATION: No officer shall receive any compensation from the Association for acting as such.

Section 9. EXECUTION OF INSTRUMENTS: All instruments, including, but not limited to, agreements, contracts, deeds or leases of the Association shall be executed in the name of the Association by the President or Vice President and attested to by the Secretary or Assistant Secretary of the Association. All checks of the Association are to be executed by such person or persons as may be designated by the Board of Directors.

#### ARTICLE V.

##### Operation of the Association

Section 1. RULE MAKING: The Board of Directors shall promulgate and establish, pursuant to the provisions set out hereinbelow, reasonable rules and regulations governing the use, enjoyment, maintenance, repair of and additions or alterations to the lots, townhouses, common elements and the improvements thereon.

Subsection 1.1. PROCEDURES: The Board of Directors, or a rule making committee specifically appointed by the President, shall formulate reasonable rules and regulations, or amendments or modifications thereto, to be proposed to the membership of the Association. Such proposals may be considered by the membership of the Association for adoption either at the annual meeting of the membership or at a special meeting of the membership called by the President specifically for the consideration of the adoption of such proposals. All such proposals shall be stated in writing and sent to the owners of the memberships in the Association in any notice of the special meeting called for the consideration thereof, or at least fifteen (15) days prior to the annual meeting of the membership of the Association at which they will be considered. At such meeting such proposed rules and regulations shall be considered new business of the Association. In order to be adopted as rules and regulations, amendments or modifications thereof, of the Association such proposed rules and regulations must receive assent from ninety per cent (90%) of the votes of the entire membership of the Association present in person or by proxy at such meeting.

Subsection 1.2. AMENDMENT, MODIFICATION, ADDITIONS OR REPEAL:

In addition to the above, any member of the Association may propose a modification, amendment, addition to or repeal of any and all rules and regulations of the Association by stating the same in writing to the Board of Directors. If any such member shall have obtained to such proposal the signatures of at least twenty-five per cent (25%) of the membership owners in the Association, then the Board of Directors shall submit such proposal to the Association at the next annual meeting of the Association for consideration or at a special meeting of the Association called pursuant to a request therefor made in such proposal when submitted to the Board of Directors. Adoption of any such proposal shall be as

stated in Subsection 1.1. hereinabove.

Subsection 1.3. PROHIBITIONS: No rule or regulation, nor amendment, modification, addition to or repeal of any or all of the rules and regulations of the Association shall discriminate against any townhouse and lot owner or against any townhouse and lot or group of townhouses and lots unless the owners thereof so affected shall consent in writing; nor shall any of the above change any townhouse or lot nor the share in the common elements appurtenant to it, nor shall any of the above increase any owner's share in the common expenses of the Association nor change the voting rights of any member unless the owner of the membership appurtenant to the lot and townhouse so affected and all record owners of liens thereon shall join in the execution of such rule, regulation, amendment, modification, addition to or repeal of the same.

Subsection 1.4. RECORDING: A copy of all rules and regulations or amendments, additions, modifications to or repeals of rules and regulations of the Association shall be certified by the President and Secretary of the Association as having been duly adopted by the Association and shall be effective from the date the same is recorded in the Office of the Register of Deeds of New Hanover County, North Carolina.

Section 2. INSURANCE: The Board of Directors shall be required to obtain and maintain, to the extent possible, the following insurance:

Subsection 2.1. FIRE INSURANCE with extended coverage, vandalism and malicious mischief endorsements, insuring all improvements upon the common elements and all townhouses (including the bathroom and kitchen fixtures initially installed therein by the Declarant, but not including furniture, furnishings, or other personal property supplied or installed by owners or tenants of owners) and covering the interests of the Association, the Board of Directors, and all owners and their mortgagees or beneficiaries under deeds of trust, as their respective interests may appear, in an amount at least equal to the full replacement value of all structures insured, without deduction for depreciation; each of said policies shall contain a North Carolina standard mortgage clause in favor of each mortgagee or beneficiary under a deed of trust of a townhouse and lot which shall provide that the loss, if any, thereunder shall be payable to such mortgagee or beneficiary under deed of trust as its interest may appear, subject however, to the loss payment provisions in favor of the Board of Directors hereinafter set forth;

Subsection 2.2. FLOOD INSURANCE covering all of the lots and townhouses;

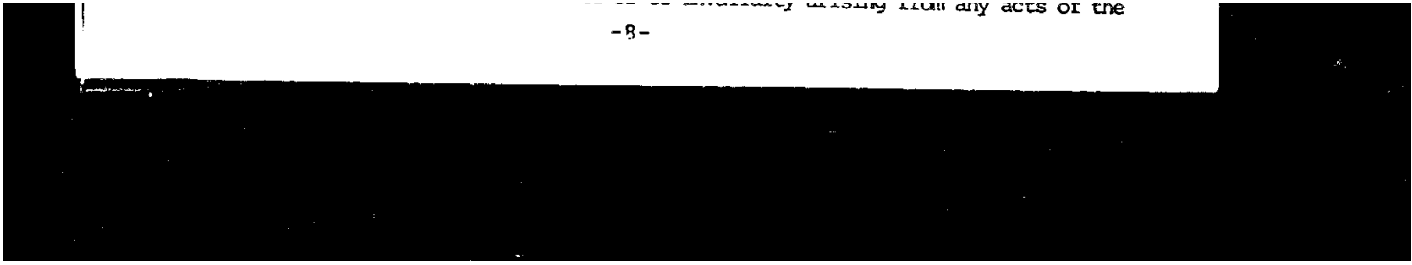
Subsection 2.3. PUBLIC LIABILITY INSURANCE in such limits as the Board of Directors may, from time to time, determine covering each member of the Board of Directors, each officer of the Association, the Association and each owner of a lot and townhouse; such public liability coverage shall also cover cross-liability claims of one insured against another;

Subsection 2.4. Such other insurance as the Board of Directors may determine is necessary for the protection of the development, the Association, its directors, officers and members.

Subsection 2.5. PREMIUMS: The premiums for all such insurance shall be an annual expense of the Association, and as such, shall constitute a portion of the annual assessment to be levied against each member of the Association pursuant to the provisions of these By-Laws.

Subsection 2.6. ADJUSTMENT FOR LOSS: All such insurance policies shall provide that adjustment of loss shall be made by the Board of Directors and that the net proceeds thereof shall be payable to the Board of Directors.

Subsection 2.7. WAIVERS, CANCELLATIONS, MODIFICATIONS, RENEWALS: All policies of physical damage insurance shall contain waivers of subrogation and waivers of any defense based on co-insurance or other insurance or of invalidity arising from any act of the



insured and of pro rata reduction of liability, and shall provide that such policies may not be cancelled or substantially modified without at least ten (10) days' prior written notice to all insureds, including all mortgagees and beneficiaries under deeds of trust. Duplicate originals of all policies of physical damage insurance and all renewals thereof, together with proof of payment of premiums, shall be delivered to all mortgagees or beneficiaries under deeds of trust at least ten (10) days prior to expiration of the then current policies. Prior to obtaining any policy of fire insurance or any renewal thereof, the Board of Directors shall obtain an appraisal from a fire insurance company or otherwise of the full replacement value of the townhouses and improvements to the common elements, without deduction for depreciation, for the purpose of determining the amount of fire insurance to be effected pursuant hereto.

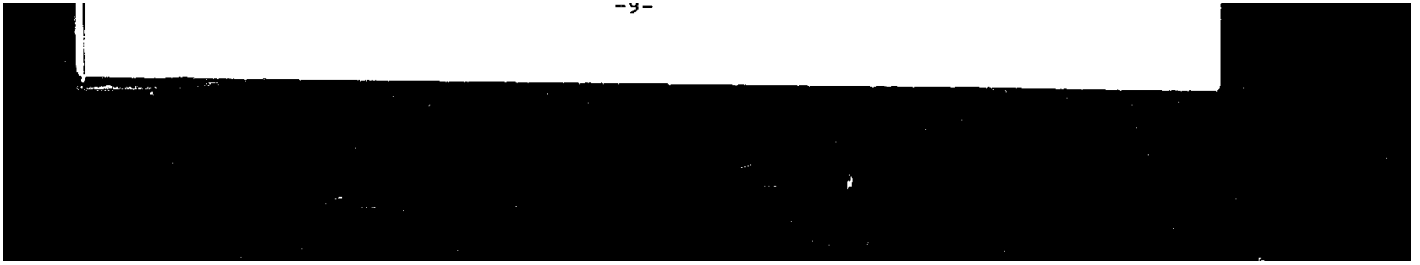
Subsection 2.8. OWNERS' INSURANCE: The owners of townhouses and lots shall not be prohibited from carrying other insurance for their own benefit provided that such policies shall contain waivers of subrogation and further provided that the liability of the carriers issuing insurance obtained by the Board of Directors shall not be affected or diminished by reason of any such additional insurance carried by any townhouse and lot owner.

Subsection 2.9. INITIAL MINIMUM AMOUNTS: Until the first regular meeting of the Board of Directors following the first annual meeting of the membership of the Association, the Board of Directors shall obtain and maintain all such insurance in the following amounts:

- a. Fire insurance in an amount of not less than Forty Thousand Dollars (\$40,000.00) per townhouse and in an amount of not less than Twenty Five Thousand Dollars (\$25,000.00) for the improvements to the common elements;
- b. Flood insurance in an amount of not less than Forty Thousand Dollars (\$40,000.00) per townhouse;
- c. Public Liability insurance in an amount of not less than Five Hundred Thousand Dollars (\$500,000.00) covering all claims for personal injury arising out of one occurrence and not less than One Hundred Thousand Dollars (\$100,000.00) covering all claims for property damage arising out of one occurrence.

Subsection 2.10. REPAIR OR RECONSTRUCTION AFTER CASUALTY: In the event of damage to or destruction of any or all of the townhouses and/or improvements to the common elements as a result of fire or other casualty (UNLESS EIGHTY-FIVE PER CENT (85%) OR MORE OF THE TOWNHOUSES ARE DESTROYED OR SUBSTANTIALLY DAMAGED AND OWNERS OF EIGHTY-FIVE PER CENT (85%) OR MORE OF THE LOTS AND TOWNHOUSES OF THE DEVELOPMENT DO NOT DULY AND PROMPTLY RESOLVE TO PROCEED WITH REPAIR OR RESTORATION), the Board of Directors shall arrange for the prompt repair and restoration of all damaged improvements (including any damaged townhouse, and the kitchen and bathroom fixtures initially installed therein by the declarant, but not including any wall, ceiling or floor decorations or coverings or other furniture, furnishings, fixtures, equipment or other personal property installed or supplied in said townhouse by the owner(s) thereof), and the Board of Directors shall disburse the proceeds of all insurance policies to the contractors engaged in such repair and restoration in appropriate progress payments. Any cost of such repair and restoration in excess of the net insurance proceeds received by or payable to the Board of Directors shall constitute a common expense of the Association.

If eighty-five percent (85%) or more of the townhouses of the development are destroyed or substantially damaged and the owners of eighty-five per cent (85%) of the lots and townhouses do not duly and promptly resolve to proceed with repair or restoration of such damaged improvements, all of the property in the development shall be subject to an action for partition at the suit of any member of the Association or lienor, as if owned in common, in



which event the net proceeds of the sale, together with the net proceeds of all insurance policies shall be divided by the Board of Directors among all of the members of the Association in proportion to their respective shares in the Association, after first paying out of the share of each member of the Association the amount of any unpaid liens on his lot and townhouse, in the order of the priority of such liens.

In the event of a repair or restoration of the improvements to the property and in the event that the net proceeds of insurance received by or payable to the Board of Directors shall exceed the cost of such repair or restoration, then such excess shall be paid by the Board of Directors to all owners of townhouses and lots in proportion to their respective interests in the Association after first paying out of the share due each owner such amounts as may be required to reduce unpaid liens on such owner's lot and townhouse in the order of priority of such liens.

Whenever in this Subsection the words "promptly repair" or "prompt repair" are used, it shall mean repairs are to begin not more than sixty (60) days from the date of receipt of the Board of Directors of proceeds of insurance on account of such damage or destruction, whether or not sufficient to pay the estimated costs of such work. Wherever the words "promptly resolve" are used hereinabove, it shall mean not more than sixty (60) days from the date the Board of Directors notifies the members of the Association that it holds proceeds of insurance on account of such damage or destruction and that such proceeds are not sufficient to pay the estimated costs of such work, as the case may be.

**Section 3. MAINTENANCE:** The Board of Directors shall provide for the upkeep, care, preservation, protection and maintenance of the common elements and the improvements thereon as well as the exterior surfaces and the asphalt shingle roofs of the townhouses, as follows:

- a. repair and repave, when necessary, all pavements existing upon the property;
- b. repair and maintain the bulkhead;
- c. repair, reconstruct, replace, maintain and provide for the safety of all pilings and all walkways, docks and piers extending from the bulkhead over and across the portions of the property submerged beneath Myrtle Grove Sound;
- d. upkeep, maintain and preserve all grasses, lawns, trees, shrubs, gardens and other vegetation maintained upon the common elements;
- e. repair, replace and care for the asphalt shingles on the roof of all townhouses;
- f. paint, repair, replace and care for all gutters, downspouts, exterior building surfaces and other exterior materials of the townhouses and all of the improvements located upon the common elements; and
- g. repair, reconstruct, repaint, maintain and keep safe any and all other improvements, of whatever nature, made to the common elements.

**Subsection 3.1. RIGHT OF ACCESS:** For the purpose solely of performing all of the above-described maintenance, etc., the Association, through its duly authorized agents or employees, shall have the right, after reasonable notice to any and all owners concerned to enter upon any lot, the exterior of any townhouse or the roof thereof at any reasonable hour on any day.

**Subsection 3.2. OWNERS' REPAIRS:** All maintenance, repairs, replacements and care for the lots and townhouses, not hereinabove provided for, whether structural or nonstructural, ordinary or extraordinary, of whatever nature or kind, shall be performed by the owner(s) of such lot and townhouse in such need of repair at said owner's sole cost and expense. In addition, any maintenance, repair, replacement, etc., to any of the common elements, any of the improvements thereon, the exteriors of the townhouses or the asphalt shingle roofs of the townhouses caused by the negligence, misuse, neglect or wilful act of any owner, his family, tenants, guests or invitees shall be performed by the Association at the sole cost and expense of said owner; said cost and expense therefor to be added to said owner's annual assessment.



Subsection 3.3. EXPENSE: All maintenance, repair, reconstruction, replacement, etc., as outlined hereinabove is to be performed by or through the Board of Directors and the cost and expense thereof shall, except as provided in Subsection 3.2. hereinabove, be an annual expense of the Association.

Section 4. FISCAL MANAGEMENT: The Board of Directors shall, from time to time, and at least annually, prepare a budget for the Association, determining the projected annual costs to the Association of performing all of the duties of and fulfilling all of the obligations of the Association. These costs shall include all of the costs incurred by the Association in the performance of those duties and obligations outlined in the Articles of Incorporation, the Declaration of Articles of Covenants, Conditions and Restrictions applicable to the development, and Article III., Section 13, and Article V. of these By-Laws, as well as, the costs necessary for the efficient management of the Association (including amounts for an operations reserve and a capital improvements reserve, if deemed necessary by the Board of Directors). The budget, so prepared, shall be submitted to the membership of the Association for approval at the annual meeting of the membership. The proposed budget must be approved by a vote of at least fifty-one per cent (51%) of the votes of the entire membership of the Association, represented in person or by proxy at such meeting.

Subsection 4.1. ANNUAL ASSESSMENTS: After approval of the proposed budget of the Association, the Board of Directors shall assess each lot and townhouse within the development for one twenty fourth (1/24th) of the projected annual costs to the Association as described hereinabove. The Board of Directors shall cause the Secretary of the Association to provide each member of the Association a statement of the annual assessment against his lot and townhouse in writing, stating the date payment thereof is due at least thirty (30) days prior to the due date. All assessments shall be due and payable on the date and in such installments, if allowed, as the Board of Directors may determine.

Subsection 4.2. NATURE OF ASSESSMENTS: The annual assessments (together with interest, costs and reasonable attorney's fees, if any), as described hereinabove shall constitute a lien in favor of the Association upon each lot and townhouse against which each assessment is made from the date of assessment until paid. Each assessment (together with interest, costs and reasonable attorney's fees, if any) shall also be the personal obligation of the owner (the word "owner" as used here to include the Declarant) of the lot and townhouse on the date when the assessment is made; provided however, that the personal obligation for delinquent assessments shall not pass to said owner's successors in title unless expressly assumed by them. Transfer of a lot and townhouse however shall not destroy nor effect the lien in favor of the Association for all delinquent assessments, provided however, that the sale or transfer of any lot and townhouse pursuant to any foreclosure of a first mortgage or first deed of trust against such lot or townhouse shall extinguish the lien for all assessments which became due prior to such sale or transfer, but not the lien for any assessments becoming due after said sale or transfer.

Subsection 4.3. ENFORCEMENT: In the event the assessments as described hereinabove remain unpaid for more than thirty (30) days from the due date for their payment, then the owner shall be personally obligated to pay interest at the legal rate on all unpaid assessments from the due date thereof, together with all expenses, including reasonable attorney's fees, incurred by the Association in any proceedings brought to collect unpaid assessments. The Association shall have the right and obligation to attempt to recover unpaid assessments, together with interest thereon, and the expenses of the proceedings, including reasonable attorney's fees, in an action brought against the owner on his personal obligation to the Association or by foreclosure of the lien against the lot or townhouse in favor of the Association for unpaid assessments, or both. The Association shall have



the right and power to bid for and purchase and hold title to any lot and townhouse at the foreclosure sale thereof and the further right to own, hold, lease, mortgage, sell, convey and vote the vote appurtenant to and otherwise deal with the same, all on behalf of the membership of the Association. An action to recover a money judgment for unpaid assessments shall be maintainable without the foreclosure or waiver of the lien securing the payment of the same.

Subsection 4.4. SUBORDINATION: The lien for unpaid assessments provided for hereinabove shall be subordinate to the lien of any first mortgage or first deed of trust against any lot and townhouse.

Section 5. RECORDS AND AUDITS: The Board of Directors shall keep detailed records of the action of the Board of Directors, minutes of the meetings of the Board of Directors, minutes of the meetings of the membership of the Association and financial records and books of account of the Association, including a chronological listing of receipts and expenditures, as well as a separate account for each townhouse and lot which, among other things, shall contain the amount of each annual assessment, and other assessments, against each lot and townhouse, the date when due, the amount paid thereon, and the balance remaining unpaid. A written report summarizing all receipts and expenses of the Association shall be rendered by the Board of Directors to all members of the Association at least semi-annually. In addition, an annual report of the receipts and disbursements of the Association shall be rendered by the Board of Directors to all members of the Association who have requested the same, promptly but after the end of each fiscal year. Each member of the Association shall be permitted to examine all of the books and accounts of the Association at reasonable times on business days, but not more than once a month.

Section 6. CONDEMNATION: In the event of a taking in condemnation or by eminent domain of part or all of the property, the award made for such taking shall be payable to the Board of Directors, and the Board of Directors shall disburse the net proceeds of such award in the same manner as they are required to distribute insurance proceeds where there is no repair or restoration of the damage, as provided in these By-Laws.

#### ARTICLE VI.

##### Declarant Control

UNTIL ALL LOTS AND TOWNHOUSES IN THE DEVELOPMENT HAVE BEEN SOLD BY THE DECLARANT, SUGGS AND HARRELSON CONSTRUCTION COMPANY, AND PAID FOR, OR UNTIL JANUARY 1, 1982, WHICHEVER DATE FIRST OCCURS, THE BOARD OF DIRECTORS OF THE ASSOCIATION SHALL CONSIST OF SUCH DIRECTORS, OFFICERS OR EMPLOYEES OF THE DECLARANT AS SHALL HAVE BEEN DESIGNATED BY THE DECLARANT AND ALL OF THE AFFAIRS OF THE ASSOCIATION SHALL BE GOVERNED AND CONTROLLED BY SUCH INDIVIDUALS, WITHOUT HINDRANCE FROM ANY OF THE MEMBERS OF THE ASSOCIATION. FURTHER, UNTIL ALL LOTS AND TOWNHOUSES IN THE DEVELOPMENT HAVE BEEN SOLD BY THE DECLARANT AND PAID FOR, NO MEMBER OF THE ASSOCIATION SHALL HINDER THE DECLARANT'S CONSTRUCTION AND MARKETING OF UNSOLD AND UNFINISHED TOWNHOUSES.

ONCE THE ABOVE REFERENCED DATE OCCURS, THE PRESIDENT OF THE ASSOCIATION SHALL IMMEDIATELY CALL A SPECIAL MEETING OF THE MEMBERSHIP OF THE ASSOCIATION FOR THE PURPOSE OF THE RESIGNATION OF THE DIRECTORS AND OFFICERS OF THE ASSOCIATION WHO ARE EITHER DIRECTORS, OFFICERS OR EMPLOYEES OF THE DECLARANT AND THE ELECTION OF A NEW BOARD OF DIRECTORS AND OFFICERS OF THE ASSOCIATION, WHO SHALL PROMPTLY ASSUME ALL OF THE POWERS, PRIVILEGES, RIGHTS AND DUTIES OF THE ASSOCIATION AS SET FORTH IN THESE BY-LAWS. THEREAFTER, THE FIRST ANNUAL MEETING OF THE MEMBERSHIP OF THE ASSOCIATION SHALL BE HELD AS PROVIDED IN ARTICLE II, SECTION 5, OF THESE BY-LAWS. UNTIL THE ABOVE REFERENCED DATE OCCURS, NO ACTION TAKEN BY ANY OR ALL OF THE MEMBERS OF THE ASSOCIATION SHALL HINDER OR CONTROL ANY ACTION TAKEN BY THE DECLARANT IN DEVELOPING THE PROPERTY, SELLING LOTS AND TOWNHOUSES THEREIN, OR GOVERNING AND MANAGING THE ASSOCIATION, AND, FURTHER, ANY AND ALL ACTION TAKEN BY THE MEMBERSHIP OF THE ASSOCIATION PURSUANT TO THESE BY-LAWS SHALL BE SUBJECT TO THE PRIOR WRITTEN APPROVAL OF THE DECLARANT.



## ARTICLE VII.

## Parliamentary Rules

Robert's Rules of Order (latest edition) shall govern the conduct of all Association meetings, not in conflict with the Articles of Incorporation, the Declaration of Articles of Covenants, Conditions and Restrictions, and these By-Laws.

## ARTICLE VIII.

## Amendments

These By-Laws may be amended in the following manner: (a) any member of the Association may propose any amendment or modification to these by-laws by submitting the same in writing to the President of the Association; (b) in order to qualify for consideration by the Association, any such amendment or modification must be signed by at least twenty-five per cent (25%) of the owners of the memberships in the Association; (c) upon receipt of such proposed amendment or modification, the President of the Association shall immediately follow the procedures outlined hereinabove under Article II, Section 6, entitled Special Meetings; (d) any such proposed amendment or modification in order to become a part of these By-Laws must be approved by ninety per cent (90%) of the votes of the entire membership of the Association present in person or by proxy at such meeting; provided however, that no amendment or modification shall discriminate against any owner, any townhouse, lot, class or group of owners, townhouses or lots unless all of the owners so affected so consent; and further, no amendment or modification shall change any lot, townhouse nor the share in the common elements appurtenant thereto, nor increase any owner's assessment, nor change the voting rights of any members unless the owner or owners of the memberships or lots and townhouses so affected and all holders of liens against such owner's or owners' lots and townhouses shall approve in writing such amendment or modification. No amendment or modification shall change or alter any of the provisions of Article VI hereinabove unless signed and approved by the authorized officers of the Declarant.

## ARTICLE X.

## Miscellaneous

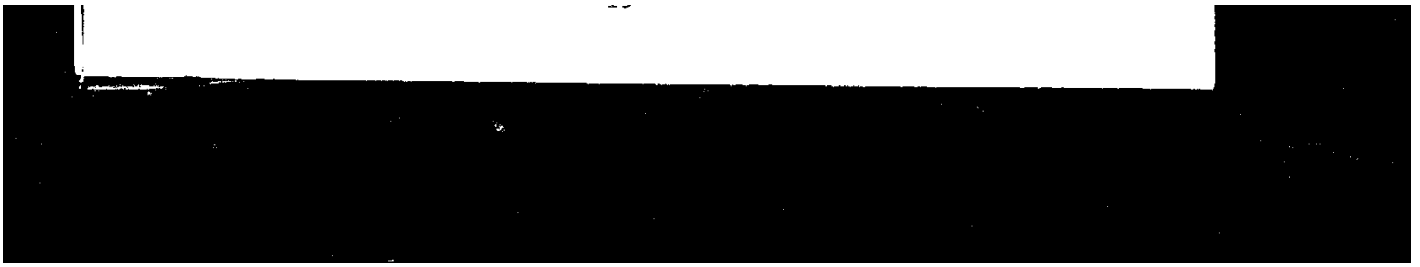
Section 1. NOTICES: All notices to the Board of Directors shall be sent by registered mail, return receipt requested, to the principal office of the Board of Directors. All notices to owners shall be sent by registered mail, return receipt requested, to such addresses as may have been designated by such owners in writing to the Secretary of the Association. All notices to mortgagees or beneficiaries under deeds of trust against lots and townhouses shall be sent by registered mail, return receipt requested, to their respective addresses designated by them in writing to the Secretary of the Association. All notices, if received, as proven by the return receipt, shall be deemed to have been given when mailed, except notices of change of address which shall be deemed to have been given when received.

Section 2. WAIVER OF NOTICE: Whenever any notice which is required to be given to any member, director, or officer of the Association by the provisions of the North Carolina Nonprofit Corporation Act, the provisions of the Articles of Incorporation, the Declaration of Articles of Covenants, Conditions and Restrictions or these By-Laws, is waived in writing, signed by the person or entities entitled to such notice, whether before or after the time stated therein, such shall be equivalent to the giving of such notice.

Section 3. INVALIDITY: The invalidation of any provision of these By-Laws by any court, agency, or legislature shall in no way affect the validity of any other provision of these By-Laws, and the same shall remain in full force and effect.

Section 4. CAPTIONS: The captions herein used are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of these By-Laws, or the intent of any provision thereof.

Section 5. GENDER: The use of the masculine gender in these By-Laws shall be deemed to include the feminine gender and the neuter gender and the use of the singular shall be deemed to include the plural, whenever the context so requires.



Section 6. WAIVER: No restriction, condition, obligation or provision contained in these By-Laws shall be deemed to have been abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

Section 7. FISCAL YEAR: The fiscal year of the Association shall be the calendar year.

Section 8. SEAL: The seal of the Association shall be in such form as shall be approved from time to time by the Board of Directors of the Association.

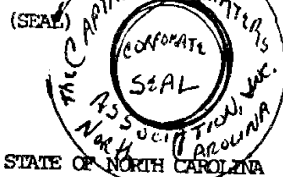
IN WITNESS WHEREOF, the President of the Association and the Secretary thereof do hereby certify that this is a true copy of the duly enacted By-Laws of the CAPTAINS QUARTERS ASSOCIATION, INC., this the 19th day of October, 1979.

CAPTAINS QUARTERS ASSOCIATION, INC.

BY: [Signature]  
President

ATTEST:

[Signature]  
Secretary

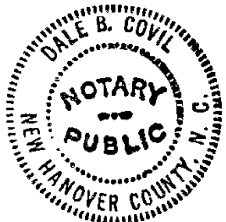


STATE OF NORTH CAROLINA  
COUNTY OF NEW HANOVER

I, Dale B. Covil, a Notary Public in and for the state and county aforesaid, do hereby certify that B. REX STEPHENS personally appeared before me this day and acknowledged that he is the Secretary of CAPTAINS QUARTERS ASSOCIATION, INC., a North Carolina Nonprofit Corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its President, sealed with its corporate seal, and attested by \_\_\_\_\_ as its Secretary.

Witness my hand and notarial seal, this the 19th day of October, 1979.

(Notarial Seal)



[Signature]  
Notary Public

My commission expires: March 16, 1981

STATE OF NORTH CAROLINA  
New Hanover County  
The Foregoing Certificate of  
Dale B Covil, a Notary  
Public  
is certified to be correct.  
This the 22 day of Oct 1979  
Drawn By Jackson & Carter

Received and Recorded  
10-22-79 at 1:45 PM  
[Signature]  
Register of Deeds

Lois C. LeRay, Register of Deeds  
By [Signature]  
Ass't

