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JEFF L. THIGPEN

REGISTER OF DEEDS

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NORTH CAROLINA

**SECOND TIER DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS**

FOR

SADDLE BROOK (One Story Towns)

GUILFORD COUNTY

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THIS DECLARATION is made on the date hereinafter set forth by SHUGART MANAGEMENT, INC. (herein Management or Declarant) a North Carolina corporation and SHUGART ENTERPRISES, LLC (herein Enterprises or Declarant)

WITNESSETH:

WHEREAS, Management is the developer of a mixed use residential development and current owner and Management and Enterprises have an agreement for the sale and purchase of certain property in Guilford County, North Carolina, a part of which is more particularly described on **EXHIBIT A**, attached hereto and incorporated herein by reference.

WHEREAS, it is the intent of the Management and Enterprises to cause the above-described property and the common property associated therewith and any subsequently annexed property that is subjected to this Declaration of Covenants, Conditions and Restrictions and this property is a part of the larger development of Saddle Brook, a mixed use development, and is conveyed subject to the Saddle Brook (Master Declaration) of record in Book 6568 page 745-763, and each Lot Owner in Saddle Brook (One Story Towns) shall automatically be a Member of the Saddle Brook HOA, Inc..

NOW, THEREFORE, Management and Enterprises hereby declare that all of the property described in Exhibit A, shall be held, sold and conveyed subject to the following easements, restrictions, covenants and conditions, which are for the purpose of protecting the value and desirability of, and which shall run with such real property and be binding on all parties having any right, title or interest in the described properties or any part thereof, their heirs, successors and assigns, and shall inure to the benefit of each Owner thereof.

ARTICLE I

DEFINITIONS

SECTION 1. ASSOCIATION. "Association" shall mean and refer to Saddle Brook Flats HOA, Inc., its successors and assigns.

SECTION 2. "COMMON AREA" OR "COMMON ELEMENTS". "Common Area" or "Common Elements" shall mean all real property owned by the Association (whether owned in fee or by way of license or easement) or leased by the Association, other than a Lot, which will be conveyed to the Association by the Declarant. The Common Area to be owned by the Association will be that which is deeded to the Association by the Declarant. Future phase plats, if any, will have additional designated Common Area or Elements for each phase brought under the control of the Association as it is deeded, provided that portion of the common elements upon which a driveway, patio, patio enclosure and/or sidewalk servicing only one or two dwellings shall be deemed to be Limited Common Area for the use and benefit of the dwelling(s) served thereby and the same shall be maintained, repaired and replaced by the dwelling Owner(s) serviced thereby. Declarant reserves and retains the right to adjust the location of the Lots and Common Area as hereinafter stated.

Declarant reserves the right, in its sole discretion, to convey or cause to be conveyed to the Association from time to time and without the consent of the Association or its Members, additional property and may include any portion of the Properties, including any Additional Property annexed by Declarant pursuant to Article XI, Section 4 hereof. The Association shall accept any such conveyance of property and thereafter such property shall be held and maintained by the Association as Common Area. Declarant does not contemplate the construction of any recreational improvements or amenities, such as a tennis court, club house, etc. within the Common Area of this Association, however the Master Association will have certain retention ponds servicing the Property. The Association shall maintain the Common Area and be required to promptly repair and replace any portion of the Common Area for which the Association is required to maintain casualty insurance which is damaged or destroyed.

The Association also may acquire additional Common Area with the consent of the Members of the Association entitled to cast at least two-thirds (2/3) of the votes of the Association, who are voting, in person or by proxy, at a meeting duly called for such purpose; provided, however, during any Period of Declarant Control, Declarant must also consent to such action. For such a conveyance to be effective, the deed or instrument conveying to the Association additional Common Area must: (1) be executed on behalf of the Association by its duly authorized officers; (2) contain an attestation by the officers executing the instrument on behalf of the Association that the requisite owner approval has

been obtained and is evidenced by written acknowledgments signed by the owners approving the amendment and made a part of the minute book of the Association; and (3) be properly recorded in the Register of Deeds Office where the land lays.

SECTION 3. DECLARANT. "Declarant" shall mean and refer to Shugart Management, Inc., provided if Shugart Enterprises, LLC, purchases and closes all the lots as provided in an agreement with Management requiring Enterprises to purchase the Lots in Saddle Brook(One Story Towns), then Enterprises shall become the sole Declarant, without further documentation, as well as its successors and assigns, pursuant to an express assignment or conveyance of any special Declarant rights hereunder to such successor or assign, all of which rights, including Declarant's voting, architectural review, easement and development rights, shall be assignable and may be apportioned on a lot-by-lot basis.

SECTION 4. "FHA" shall mean and refer to the Federal Housing Administration of the Department of Housing and Urban Development.

SECTION 5. LOT. "Lot" shall mean and refer to any separately numbered plot of land shown upon any now or subsequently recorded subdivision plat of the Properties intended for residential townhome purposes and shall include any improvements constructed thereon and "Lots" shall refer to all such Lots collectively. Declarant hereby reserves the right to reconfigure, from time to time and without consent of the Owners or the Members of the Association, the boundaries of any Lot or Lots owned by Management or Enterprises or their affiliates and to thereby create additional Lots, eliminate existing Lots and Common Area or create additional Common Area; provided, however, in no event shall the Properties contain a greater number of Lots than the number from time to time permitted by the appropriate governmental authority(ies). If Declarant elects to exercise its right to revise the boundaries of one or more Lots or add or eliminate a lot(s), Declarant shall record a revised plat of the affected Lot or Lots. Upon recording by Declarant of such a revised plat, each lot shown on the previously recorded plat or plats, the boundaries of which are revised by the revised plat, shall cease to be a Lot as defined in this Declaration and each newly configured lot shown on the revised plat shall be a Lot as defined in this Declaration.

SECTION 6. PLAN. "Plan" shall mean and refer to the plan(s) for the Properties and the Additional Property now or hereafter approved by the governmental authorities having jurisdiction, as such plan(s) may be from time to time amended and approved. Conceptual plans that may be made, approved and filed shall not be binding upon the Declarant until such time as the property is subjected to this Declaration and then only to the extent herein stated.

SECTION 7. MEMBER. "Member" shall mean and refer to every person or entity that holds Membership with voting rights in the Association.

SECTION 8. OWNER. "Owner" shall mean and refer to the record Owner, whether one or more persons or entities, of a fee simple title to any Lot which is a part of the Properties, as hereinafter defined, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

SECTION 9. PERIOD OF DECLARANT CONTROL. "Period of Declarant Control" shall mean and refer to the period of time commencing on the date this Declaration is recorded in the Office of the Register of Deeds in which the land lays and continuing until the earlier of: (i) ten (10) years from the date this Declaration is recorded; or (ii) such time as Management and/or Enterprises together with all affiliated entities, shall cease to own at least twenty-five percent (25%) or more of the lots shown on the Plan which are intended for residential townhome purposes in phases, such period of time shall be reinstated upon annexation of additional lots which constitute twenty-five percent (25%) of the lots and shall continue until the earlier of : (i) ten (10) years from the date this Declaration is recorded as aforesaid or (ii) such time as Declarant, together with all affiliated entities shall cease to own at least twenty-five percent (25%) of the lots shown on the Plan which are intended for residential townhome purposes.

SECTION 10. PROPERTY - PROPERTIES. "Property or Properties" shall mean and refer to that certain real property described in Exhibit A, and such additions thereto as may hereafter be brought within the jurisdiction of the Association.

SECTION 11. VA. "VA" shall mean and refer to the Department of Veteran Affairs.

SECTION 12. BOARD, EXECUTIVE BOARD, OR BOARD OF DIRECTORS shall mean those persons appointed or elected to the Board of Directors of the Association.

SECTION 13. MASTER ASSOCIATION Master Association shall mean and refer to Saddle Brook HOA, Inc.

SECTION 14. PHASE DECLARATION shall mean each Phase Declaration for an additional phase of Townhomes, that are subjected to this Declaration, recorded in the Register of Deeds office where the land lays, if any.

ARTICLE II PROPERTY RIGHTS

SECTION I. Every Owner shall have a right and easement of enjoyment in and to the Common Area that shall be appurtenant to and shall pass with the title to every Lot, subject to the following provisions:

(a) the easements herein reserved by Declarant or reserved in a deed of conveyance or created in favor of the Association including, without limitation the easements set forth in Article VIII hereof and subject to easements granted by the Declarant which may include general easements and exclusive right easements. The right of the Declarant to relocate, adjust, include and exclude common area, recorded plats for a Lot(s) owned by it as stated in Article I, Section 5, above.

(b) the right of the Association to permit the use of and to charge reasonable admission and other fees for the use of any recreational facility situated upon the Common Area, if any;

(c) the right of the Association to suspend the voting rights of the Owner(s) of any Lot for any period during which any assessment against such Lot remains unpaid and for any period during which such Lot or any Owner or occupant thereof is in violation of the terms of this Declaration or the published Rules and Regulations of the Association and for a period not to exceed sixty (60) days after any such violation;

(d) the right of the Association, pursuant to Section 47F-3-112 of the Planned Community Act and with the consent of the Members entitled to cast at least eighty percent (80%) of the votes of the Association, to dedicate or transfer fee title to all or any part of the Common Area for such purposes and subject to such conditions as may be agreed to by the Members consenting to such dedication to transfer; provided, however, for so long as Declarant or any affiliated entity shall own any portion of the Properties or shall have the right to annex additional properties pursuant to Article XI, Section 4 hereof, Declarant must also consent to such action and, further provided that no such dedication or transfer shall interfere with or obstruct utility service to, or ingress, egress and regress to or from, the Lots or any remaining Common Area or cause any Lot or any remaining Common Area to fail to comply with applicable laws, regulations or ordinances;

(e) the right of the Association to dedicate or transfer non-exclusive easements on, over and upon all or any part of the Common Area for such purposes and subject to such conditions as may be agreed to by the Association's Board; provided, however, no such dedication or transfer shall be effective unless an instrument executed on behalf of the Association by its duly authorized officers, agreeing to such dedication or transfer, has been recorded;

(f) the right of the Association to impose Rules and Regulations for the use and enjoyment of the Common Area and improvements thereon, which regulations may further restrict the use of the Common Area, and specifically including the right to make permanent and/or temporary assignments of parking spaces and to establish Rules and Regulations concerning parking and vehicular traffic flow on and along the streets and roadways, whether public or private, within or abutting the Properties, which Rules and Regulations may restrict or prohibit on-street parking and may be enforced by towing at the expense of the vehicle's owner, by reasonable fine levied against the vehicle's owner and/or any Owner of a Lot to which such violation reasonably may be attributed, or by any other reasonable method of enforcement established by the Association's Executive Board and including the right to promulgate rules concerning pet ownership which rules may restrict number, type and size of domestic pets and may require the animal to be removed from the Property for violation of the Rules and Regulations;

(g) the right of the Association to borrow money for the purpose of improving the Common Area and facilities thereon and, with the assent of the Members entitled to cast at least eighty percent (80%) of the votes of the Association, mortgage, pledge, deed in trust, or hypothecate any or all of its real or personal property as security for money borrowed or debts incurred (any such mortgage shall be effective if it is executed on behalf of the Association by its duly authorized officers and recites that the requisite consent of Members has been obtained and documented in the Minute Book of the Association); provided, however, for so long as Declarant or any affiliated entity, shall own any portion of the Properties or shall have the right to annex additional properties pursuant to Article XI, Section 4 hereof, Declarant must also consent to such action and, further provided that no such mortgage, encumbrance or hypothecation or foreclosure of the lien thereby created shall interfere with or obstruct utility service to, or ingress, egress and regress to or from the Lots or any remaining Common Area or cause any Lot or any remaining Common Area to fail to comply with applicable laws, regulations or ordinances; and

(h) subject to prior written consent of FHA or VA, in the event FHA or VA insured loans have been obtained, secured by Lots, the right of the Association to convey to Declarant portions of the Common Area for the purpose of eliminating unintentional conveyances of Common Areas or unintentional encroachments of dwellings or other improvements onto portions of the Common Areas or for the purpose of enhancing the utility of the Common Areas to be retained by the Association; provided, however, no such conveyance shall interfere with or obstruct utility service to, or ingress, egress or regress to or from, the Lots or any remaining Common Area or cause any Lot or any remaining Common Area to fail to comply with applicable laws, regulations or ordinances; Declarant has herein and

may reserve in the deed of conveyance of common area the right to file corrective plats to reconfigure Lots and Common Area.

By virtue of being a Member the Association a Lot Owner shall also be a Member of the Master Association and will have those rights and obligations with regard to the Common Area of the Master Association as set forth in the Master Declaration. The Board of Directors of this Association may request the Master Association to suspend certain of the Members rights to use some of the Common Elements of the Master Association over a period of time for failure to pay assessments to the Association for violation of the requirements of this Declaration.

SECTION 2. DELEGATION OF USE. Any Owner may delegate, in accordance with the rules and regulations of the Association and in compliance with this declaration, his rights of enjoyment of the Common Area and facilities to the members of his family, his tenants or contract purchasers subject to the Rules and Regulations adopted from time to time by the Association and the Master Association which may be more or less restrictive than those Rules and Regulations that existed at the time of purchase.

SECTION 3. LEASES OF LOTS. Any Lease Agreement between an Owner and a lessee for the lease of such Owner's Lot shall provide that the terms of the Lease shall be subject in all respects to the provisions of this Declaration of Covenants, Conditions and Restrictions, the Articles of Incorporation, Rules and Regulations and By-Laws of the Association and the Master Association and that any failure by the lessee to comply with the terms of such documents shall be a default under the terms of the lease. All leases of Lots shall be in writing and shall have a term of at least two (2) months. Other than the foregoing there is no restriction on the right of any Owner to lease his Lot. Enforcement shall be against the Lot Owner and his Lot and such Owner shall be responsible for the compliance by the tenant or eviction due to violation of the terms of the lease.

SECTION 4. RULES AND REGULATIONS. The Board of the Association may establish reasonable Rules and Regulations concerning the use of the Common Area and improvements located thereon. Such Rules and Regulations may provide for permanent and/or temporary assignments of parking spaces and may establish rules and regulations concerning parking and vehicular traffic flow on and along the streets and roadways, whether public or private, within or abutting the Properties, which Rules and Regulations may restrict or prohibit on-street parking and may be enforced by towing at the expense of the vehicle's owner, by reasonable fine levied against the vehicle's owner and/or any Owner of a Lot to which such violation reasonably may be attributed, or by any other reasonable method of enforcement established by the Association's Board. In addition, such Rules and Regulations may include rules concerning pet ownership and may restrict the number, type and size of domestic pets. The Association may impose reasonable monetary fines and other sanctions and may

be collected pursuant to the provisions of Article IV, Section 9, hereof. The Rules and Regulations and the amendments thereto shall be made available during reasonable business hours for examination by a Member and a copy may be obtained for a reasonable cost. All such rules and regulations shall be binding upon the Owner, their families, tenants, guests, invitees and agents until and unless such regulation, rule or requirement shall be specifically overruled, canceled, or modified by the Board of the Association or by the Members of the Association entitled to cast at least two-thirds (2/3) of the votes of the Association, who are voting, in person or by proxy, at a meeting duly called for such purpose; provided, however, during any Period of Declarant Control, Declarant must also consent to such action. Such rules and regulations are not to be deemed unenforceable due to the same not being adopted or in force at the time of the purchase of a Lot or the same subsequently being changed or removed from time to time to meet problems and events as they may occur.

ARTICLE III

MEMBERSHIP AND VOTING RIGHTS

SECTION 1. MEMBERSHIP. Every person or entity who or which is a record Owner of a fee or undivided fee interest in any Lot subject to this Declaration shall be a voting Member of the Association. The foregoing is not intended to include persons or entities that hold an interest in a Lot merely as security for the performance of an obligation. Such Membership shall be appurtenant to and may not be separated from ownership of any Lot that is subject to assessment by the Association.

Section 2. VOTING. The Association shall have two classes of voting membership:

Class A. Class A Members shall be all Owners with the exception of the Management and Enterprises and shall be entitled to one vote for each lot owned. When more than one person or entities holds an interest in any Lot, all such persons or entities shall be Members. The vote for such Lot shall be exercised as they among themselves determine, but in no event shall more or less than one vote be cast with respect to any Lot. Members may vote by proxy the form of which the Association may provide.

Class B. The Class B Member shall be the Management and Enterprises and shall be entitled to three (3) votes for each Lot owned. The Class B membership shall cease and be converted to Class A membership when seventy-five percent (75%) of the total number of Lots subjected to this Declaration are sold to Owners other than Management, Enterprises or assignee of Declarant's rights have so sold such percentage, or on or before ten (10) years from the date of recording this Declaration, whichever comes first. The Declarant shall have the right to appoint and reappoint a majority of the members of the

Board of Directors of the Association until its Class B membership terminates.

SECTION 2. DECLARANT RIGHT TO REPRESENTATION ON THE BOARD OF THE ASSOCIATION. During any Period of Declarant Control, Declarant shall have the right to designate and select all of the members of the Board of the Association and those named in the Articles of Incorporation are appointed to serve until their successors are appointed or elected. Whenever Declarant shall be entitled to designate and select any person or persons to serve on any Board of the Association Declarant will advise the Association of its appointments at the annual or special meetings of the Association, and Declarant shall have the right to remove any person or persons selected by it to act and serve on said Board and to replace such person or persons with another person or other persons to act and serve in the place of any member or members of the Board so removed for the remainder of the unexpired term of any member or members of the Board so removed. Any Board member designated and selected by Declarant need not be a resident of the Properties. Except as otherwise provided in the By-Laws with respect to the filling of vacancies, any members of the Board which Declarant is not entitled to designate or select shall be elected by the Members of the Association.

ARTICLE IV

COVENANT FOR MAINTENANCE AND ASSESSMENTS

SECTION 1. CREATION OF THE LIEN AND PERSONAL OBLIGATION OF ASSESSMENTS. The Declarant, for each Lot Owner within the Properties, hereby covenants, and each Owner for any Lot, by acceptance of a deed therefore, whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay: (a) to the Association: (i) annual and other assessments and charges provided for herein, together with interest and late fees, costs and reasonable attorney's fees; (ii) special assessments for capital improvements, such assessments to be established and collected as hereinafter provided (iii) like assessments that are due the Master Association; and (b) to the appropriate governmental taxing authority: (i) a prorata share of ad valorem taxes levied against the Common Area; and (ii) a pro rata share of assessments for public improvements to or for the benefit of the Common Area if the Association shall default in the payment of either or both for a period of six (6) months. All assessments and charges provided for herein, together with interest, any late fees, costs and reasonable attorney's fees, shall be a charge on the land and shall be a continuing lien upon the property against which each such assessment is made when a claim of lien is filed of record in the Office of the Clerk of Superior Court of the county in which the land lays. Each such assessment, together with interest, any late fees, costs and reasonable attorney's fees, shall also be the personal obligation of the Owner, including his or its successors, heirs, executor,

devises and/or personal representative, of such property at the time when the assessment fell due. The personal obligation for the delinquent assessments unless a lien therefor has been filed, shall not pass to his successors in title when conveyed by deed unless expressly assumed by them.

SECTION 2. PURPOSE OF ASSESSMENTS.

(a) The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the residents of the Properties and in particular for the acquisition, improvement and maintenance of properties, services and facilities devoted to the purpose and related to the use and enjoyment of the Common Area or the Lots, including but not limited to, the payment of assessments due the Master Association by the Lot Owners, the costs of repairs, replacements and additions, the cost of labor, equipment, materials, management and supervision, of the Common Area and the payment of any taxes assessed against the Common Area; the maintenance of open spaces, water distribution and sewer outfall located in the common area and streets which have not been accepted for dedication by a public authority, roadway medians and islands (including medians and islands located in dedicated right of ways within the Properties), drives and parking areas within the Common Area excluding those associated only with one Lot, which will be handled by the Lot Owner as limited common area; the procurement and maintenance of liability insurance; payment of a pro rata share of the maintenance of retention or detention ponds, or other bodies of water located within the Common Area or on land of another used by this association by agreement, if any; the maintenance of entranceways, landscaping and lighting of Common Area, road medians and islands and entranceways, if any; the cost of operating, maintaining and repairing any street lights including decorative lighting poles, erected by the Association, Master Association or the Declarant, which are not maintained by a governmental authority, in the rights-of-way of streets (whether public or private) or in any other easement provided therefor within the Properties; the payment of charges for garbage collection and municipal water and sewer services furnished to the Common Area; the exterior maintenance of the Lots and the dwellings located thereon to the extent herein provided; obtaining the necessary or desired termite and insect control treatment or bond, maintenance and replacement of common fencing or retaining walls; the employment of attorneys and other agents to represent the Association when necessary; the provision of adequate reserves for the replacement of capital improvements including, without limiting the generality of the foregoing, paving of private streets or drives for which the Association is responsible, if any, repair and replacement of private sewer collector outfall main lines excluding the connection lines running from a dwelling to these mains, if any; and any other expense for which the Association is responsible; obtaining and maintaining such liability and casualty insurance the Association deems necessary or desirable and such other needs as may rise from time to time and any expense that a majority of the Members of the Association may subsequently designate as common expense.

(b) The Association shall establish and maintain an adequate reserve fund for the periodic maintenance, repair and replacement of improvements to the Common Area and those other portions of the Properties that the Association may be obligated to maintain. Such reserve fund(s) is/are to be established out of regular assessments for common expense.

(c) All monies collected by the Association shall be treated as the separate property of the Association, and such monies may be applied by the Association to the payment of any expense of operating and managing the Properties, or to the proper undertaking of all acts and duties imposed upon it by virtue of this Declaration, the Articles of Incorporation and the By-Laws of the Association or the Master Association and Master Declaration. As monies for any assessment are paid to the Association by any Owner, the same may be commingled with monies paid to the Association by other Owners. Although all funds and common surplus, including other assets of the Association, and any increments thereto or profits derived there from shall be held for the benefit of the members of the Association, no Member of the Association shall have the right to assign, hypothecate, pledge or in any manner transfer his Membership interest therein, except as an appurtenance to his Lot. When any Owner shall cease to be a Member of the Association by reason of his divestment of ownership of his Lot, by whatever means, the Association shall not be required to account to such Owner for any share of the fund or assets of the Association, or which may have been paid to the Association by such Owner, as all monies which any Owner has paid to the Association shall be and constitute an asset of the Association which may be used in the operation and management of the Properties.

SECTION 3. ADOPTION OF BUDGET AND FIXING OF ANNUAL ASSESSMENTS; MAXIMUM ANNUAL ASSESSMENT.

The Board of Directors shall have the right to increase the amount of the annual assessment at anytime provided such increase shall not be in excess of ten per cent (10%) per year, upon a majority vote of the members of the Board. If the Board so elects it shall notify all Members of the Association by hand delivery or U. S. Mail of the new assessment amount. If no increase is made then no action is required. If a budget in excess of the cap is proposed or it is deemed necessary due to a shortage of funds due to increased expense in excess of that anticipated then the following shall apply:

(a) At least thirty (30) days in advance of the assessment meeting, the Board shall establish and fix the amount of the proposed assessment. Within thirty (30) days of the adoption of the proposed budget, the Board shall provide to all of the Owners a summary of the budget and a notice of the meeting to consider ratification of the budget. The Board shall set a date for a meeting of the Owners to consider ratification of the budget, such meeting to be held not less than 15 nor more than 60 days after mailing of the summary and notice. The

budget is ratified unless at that meeting the Owners of a majority of the Lots present reject the proposed budget. In the event the proposed budget is rejected, the periodic budget existing, as it may have been increased by the Board, shall be continued until such time as the Owners ratify a subsequent budget proposed by the Board.

(b) Until December 31 of the year of the conveyance of the first Lot to an Owner, the maximum annual assessment shall be One Thousand Eighty and No/100 Dollars (\$1,080.00) per lot, and may be collected in monthly installments of Ninety and 00/100s Dollars (\$90.00) per Lot.

SECTION 4. SPECIAL ASSESSMENTS FOR CAPITAL IMPROVEMENTS. In addition to the annual assessments authorized above, the Association may levy, in any calendar year, a special assessment for the purpose of defraying in whole or in part the costs of any construction, reconstruction, repair or replacement of a capital improvement upon the Common Area, including fixtures and personal property related thereto, provided that any such assessment shall have the assent of the Members entitled to cast at least eighty percent (80%) of the votes of the Association who are voting, in person or by proxy, at a meeting duly called for this purpose; provided, however, during the Period of Declarant's Control, Declarant must also consent to such action. All special assessments shall be fixed at a uniform rate for all Lots and may be collected on a monthly, quarterly or annual basis.

SECTION 5. NOTICE AND QUORUM FOR ANY ACTION AUTHORIZED UNDER SECTIONS 3(a) AND 4. Written notice of any meeting called for the purpose of taking any action authorized under Section 3 or 4 of this Article shall be sent to all Members not less than fifteen (15) days nor more than sixty (60) days in advance of the meeting. At the first such meeting called, the presence of Members or of proxies entitled to cast twenty percent (10%) of all the votes of the Association shall constitute the quorum. If the required quorum is not present, another meeting may be called subject to the same notice requirement, and the required quorum at the subsequent meeting shall be one-half (1/2) of the required quorum at the proceeding meeting. No such subsequent meeting shall be held more than sixty (60) days following the date of the preceding meeting.

SECTION 6. RATE OF ANNUAL ASSESSMENT. Both annual and special assessments must be fixed at a uniform rate for all Lots and may be collected on a monthly, quarterly or annual basis; provided, however, that so long as the dwelling and Lot owned by Management or Enterprises or any affiliated entity, is unoccupied as a residence, the amount of the assessment for each such Lot shall be an amount equal to twenty-five percent (25%) of the regular assessments fixed for each Lot improved with a dwelling.

SECTION 7. DATE AND COMMENCEMENT OF ANNUAL ASSESSMENTS; DUE DATES. The annual assessments and special assessments for capital improvements provided for herein shall commence as to each Lot upon substantial completion of the dwelling unit constructed thereon, as evidenced by the issuance of a certificate of occupancy or equivalent. The first annual assessment shall be adjusted according to the number of months remaining in the calendar year. The due dates shall be established by the Executive Board. The Association shall, upon demand, and for a reasonable charge, furnish a certificate signed by an officer of the Association setting forth whether the assessments on a specified Lot have been paid.

SECTION 8. DUE DATE OF ASSESSMENTS. The assessments authorized above shall be due in advance unless the due date is otherwise stated or approved by the Board or Association.

SECTION 9. EFFECT OF NONPAYMENT OF ASSESSMENTS; REMEDIES OF THE ASSOCIATION. Any assessment not paid within thirty (30) days after the due date shall bear interest from the due date at a rate of eighteen percent (18%) per annum. In addition, the Association may charge a reasonable late fee, the amount of which shall be established from time to time by the Executive Board of the Association, for assessments not paid within thirty (30) days after the due date. After notice and an opportunity to be heard, the Association may suspend privileges or services provided by the Association (except the rights of access to Lots) during any period that assessments or other amounts due and owing to the Association remain unpaid for a period of thirty (30) days or longer, which suspension may continue without further hearing until the delinquency is cured and the Board may also request the Master Association to likewise suspend privileges and services. If assessments are being collected monthly or quarterly the Board may accelerate the balance of the yearly assessment due. The Association may bring an action at law against the Owner personally obligated to pay the same and/or foreclose the lien created herein against the Lot in the same manner as prescribed by the laws of the State of North Carolina for the foreclosure of a mortgage or deed of trust on real estate under power of sale, and interest, late fees, costs and reasonable attorney's fees for representation of the Association in such action or foreclosure shall be added to the amount of such assessment. The Attorney employed by the Association to bring such action shall have the power of sale to effectuate the foreclosure. No Owner may waive or otherwise escape liability for the assessment provided for herein by nonuse of the Common Area or abandonment of his Lot nor shall damage to or destruction of any improvements on any Lot by fire or other casualty result in any abatement or diminution of the assessments unless otherwise provided for herein.

SECTION 10. EFFECT OF DEFAULT IN PAYMENT OF AD VALOREM TAXES OR ASSESSMENTS FOR PUBLIC IMPROVEMENTS BY ASSOCIATION. Upon default by the Association in the payment to the governmental authority entitled thereto of any ad valorem taxes levied against the Common Area or

assessments for public improvements to the Common Area, which default shall continue for a period of six (6) months, each Owner of a Lot in the Association shall become personally obligated to pay to the taxing or assessing governmental authority a portion of such unpaid taxes or assessments in an amount determined by dividing the total taxes and/or assessments due the governmental authority by the total number of Lots in the Association. If such sum is not paid by the Owner within thirty (30) days following receipt of notice of the amount due, then such sum shall become a continuing lien on the Lot of the then Owner, his heirs, devisees, personal representatives and assigns, and the taxing or assessing governmental authority may either bring an action at law or may elect to foreclose the lien against the Lot of the Owner.

SECTION 11. SUBORDINATION OF THE LIEN FOR ASSESSMENTS TO THE LIEN OF FIRST MORTGAGEES. When the holder of a first mortgage or first deed of trust of record, or other purchaser of a Lot obtains title to the Lot as a result of foreclosure of a first mortgage or first deed of trust or deed in lieu of foreclosure, such purchaser and their heirs, successors, and assigns, shall not be liable for the assessments against such Lot which become due prior to the acquisition of title to such Lot by such purchaser. Such unpaid assessments shall be deemed to be common expenses collectible from all Owners including such purchaser, their heirs, successors, and assigns. Such sale or transfer of any Lot which is subject to any such first mortgage or deed of trust, pursuant to a foreclosure thereof or any proceeding in lieu of foreclosure thereof, shall extinguish the lien of such assessments as to the payment thereof which became due prior to such sale or transfer; provided, however, no such sale or transfer shall relieve such Lot or the Owner thereof from liability for any assessment thereafter becoming due or from the lien thereof or for which a prior lien was filed of record.

SECTION 12. EXEMPT PROPERTY. All property dedicated to, and accepted by, a public authority and all properties owned by a charitable or non-profit organization exempt from taxation by the laws of the State of North Carolina shall be exempt from the assessments created herein. However, no land or improvements devoted to dwelling use shall be exempt from said assessments.

ARTICLE V

ARCHITECTURAL CONTROL

SECTION 1. IMPROVEMENTS. No improvements, additions, alteration, repair, reconstruction, change in paint color, excavation, change in grade, planting, landscaping, exterior decoration (including, without limitation, yard ornaments, figurines, statues, bird baths, houses and feeders, flags and similar items) or other work which in any way alters the exterior appearance of any Lot or the improvements located thereon from their natural or improved state existing on the date such Lot was first conveyed in fee by the Declarant to an Owner other

than Declarant shall be commenced, erected or maintained upon any Lot and no building, fence, wall, residence or other structure shall be placed, commenced, erected, maintained, improved, altered reconstructed or removed, until the plans and specifications showing the nature, kind, shape, height, materials and location of the same shall have been submitted to and approved in writing as to harmony of external design and location in relation to surrounding structures and topography by the Board of the Association or by an architectural committee composed of three (3) or more representatives appointed by the Board (the "Architectural Control Committee" or "ARC"). Temporary seasonal exterior decorations shall not require the prior approval of the Board or the Architectural Control Committee, but if any such decorations are determined, in the sole discretion of the Executive Board or the Architectural Control Committee, to be distasteful or otherwise disruptive of the aesthetics or visual harmony of the community, the Board or the Architectural Control Committee may require that such decorations promptly and permanently be removed. In the event that an Owner neglects or fails to remove any such decorations at the request of the Board or the Architectural Control Committee, the Association may provide such removal. In order to enable the Association to accomplish the foregoing, there is hereby reserved to the Association the right to unobstructed access over and upon each Lot at all reasonable times for such purpose and the cost of such removal shall be added to and become a part of the assessment to which such Lot is subject. Notwithstanding the foregoing, nothing herein contained shall prevent or interfere with the right of Declarant to improve and develop the Properties, including the Lots, as Declarant chooses, so long as said development follows the general plan of development of the Properties previously approved by the appropriate governmental authority(ies) having jurisdiction or as the same may be amended. Accordingly, Declarant need not seek or obtain the approval of the Architectural Control Committee for improvements erected on the Properties by or at the direction of Declarant. Declarant shall have the right to appoint the members of the Architectural Control Committee until all the Lots it owns in the Property have been built upon. In addition, for so long as Declarant or any affiliated entity owns any Lot or has the right to annex any Additional Property pursuant to Section 4(b), Article XI hereof, Declarant or its affiliate may approve any plans and specifications rejected by the Executive Board or the Architectural Control Committee for the construction or alteration of improvements on any Lot provided the construction or alteration approved by Declarant or its affiliate comply with the general scheme of development approved by the appropriate governmental authority(ies) having jurisdiction as the same may be amended from time to time. Such approval by Declarant or its affiliate shall operate and have the same effect as approval by the Board or the Architectural Control Committee.

SECTION 2. PROCEDURES.

(a) Any person desiring to make any improvement, addition, alteration, restoration or change described in Section 1 above shall submit the plans and

specifications therefore, showing the nature, kind, shape, height, materials and location of the same, to the Board of the Association or the Architectural Control Committee which shall evaluate such plans and specifications in light of the purposes of this Article.

(b) Upon approval by the Architectural Control Committee of any plans and specifications submitted pursuant to this Declaration, a copy of such plans and specification, as approved, shall be deposited for permanent record with the Architectural Control Committee and a copy of such plans and specification bearing such approval, in writing, shall be returned to the applicant submitting the same. Approval for use in connection with any Lot of any plans and specification shall not be deemed a waiver of the Architectural Control Committee's right, in its discretion, to disapprove similar plans and specifications or any of the features or elements included herein if such plans, specifications, features or elements subsequently submitted for use in connection with any other Lot. Approval of any such plans and specifications relating to any Lot, however, shall be final as to that Lot and such approval may not be reviewed or rescinded thereafter, provided that there has been adherence to, and compliance with, such plans and specification, as approved, and any conditions attached to any such approval. As a condition to the granting of approval of any request made under this Article, the Association may require that the Owner(s) requesting such change be liable for any cost of maintaining, repairing and insuring such alteration shall be a part of the annual assessment or charge set forth herein, and subject to the lien rights described herein. If the Architectural Control Committee does not respond within 30 days of the delivery of the request (a written receipt to be obtained from the committee member or a return receipt if forwarded by certified or registered mail) then such request shall be deemed approved, provided if additional information is requested by the Committee then such time shall be extended to 30 days following the receipt of the last additional information requested by the Committee.

(c) Neither Declarant, nor any other member of the Association's Board or Architectural Control Committee, shall be responsible or liable in any way for any defects in any plans or specification approved by them, nor for any structural defects in any work done according to such plans and specifications. Further, neither Declarant, nor any member of the Association's Board or Architectural Control Committee, shall be liable in damages to anyone by reason of mistake in judgment, negligence, misfeasance or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve or disapprove any such plans or specification or the exercise of any other power or right provided for in this Declaration. Every person who submits plans or specifications for approval agrees, by submission of such plans and specifications, and every Owner of any Lot agrees, that he or she will not bring any action or suit against Declarant, or any member of the Association's Board or Architectural Control Committee, to recover any such damage.

ARTICLE VI

EXTERIOR MAINTENANCE

SECTION 1. EXTERIOR MAINTENANCE TO BE PERFORMED BY THE ASSOCIATION. The Association shall repair, maintain and replace the improvements upon the Common Area and shall maintain the grounds of each Lot which is subject to assessments hereunder (except for any enclosed privacy area, which area shall be maintained by the Owner(s) of the Lot on which the residence is located and the landscaping, driveway and sidewalk located upon the Lot, Limited Common or Common Area which services the residence on a Lot, as set forth in Section 2 below), as follows: mow, seed and fertilize all grassed areas, mulch, remove dead or diseased trees or shrubs if such trees or shrubs existed at the time Declarant initially conveyed the Common Area or the Lot on which the tree or shrub is located, replace dead or diseased trees or shrubs planted by the Declarant or the Association and prune all trees or shrubs planted by the Declarant or the Association. In addition, the Association shall repair and replace the roofing materials, gutters of the dwellings, and water mains and sewer collector lines from the public maintained lines to the lines running from the dwellings to the collector or distribution main, if any such lines are installed. Routine watering of grass and landscape items on or adjacent to a Lot shall be the obligation of the Owner(s). The Association shall replace the vinyl siding on each dwelling, however such obligation shall not include any maintenance or small repairs of same which will be the obligation of the Owner(s). Such exterior repair, maintenance and replacement shall not include that to be performed by the Owners as provided in Section 2 below. In the event that the need for any maintenance, repair or replacement required hereunder to be performed by the Association is caused through the willful or negligent act of the Owner, his family, guests or invitees, or is caused by fire, lightning, windstorm, hail, explosion, riot, riot attending strike, civil commotion, aircraft, vehicles or smoke, as the foregoing are defined and explained in the North Carolina Standard Fire and Extended Coverage insurance policies, the cost of such maintenance, replacement or repairs shall be added to and become a part of the assessment to which such Lot is subject. An Owner shall advise the Association in writing of any repairs and replacements needed that are the obligation of the Association. The Association shall perform the same within a reasonable time but shall not be liable or responsible for any resulting damage to the dwelling or the contents thereof if it performs within a reasonable time and manner under the circumstances. The Owner should take emergency action to protect his property that is not performed by the Association.

SECTION 2. MAINTENANCE TO BE PERFORMED BY THE OWNERS. Each Owner shall be liable and responsible for the maintenance, repair and replacement, as the case may be, of all interior and exterior improvements located upon his lot, including that area which is limited common area, with the exception of those the Association is to perform set forth in Section 1, above,

including any of the following that are limited common area or might encroach onto or be located within the Common Area such as, not to the exclusion of other items, landscaping, including the routine watering of same, driveway and sidewalk servicing a Lot, air conditioning and heating equipment, all utility lines, fixtures and/or their connections required to provide water, light, power, telephone, sewage and sanitary service to his Lot out to the mains and sewer outfalls. Owner shall do all necessary maintenance repair and replacement located within the enclosure of a privacy fence or wall; shall maintain and repair the vinyl siding on the dwelling with the Association being responsible only for the replacement of the siding due to deterioration over time; routine watering of landscaping on the Lot and common area adjacent thereto associated with the Lot; and all other exterior maintenance, repair and replacement not specifically set forth for the Association to perform. In the event that the Owner neglects or fails to maintain his or her Lot and/or the exterior of his or her dwelling in a manner consistent with other Lots and dwellings within the Properties, the Association may provide such exterior maintenance and all cost incurred by the Association in providing such exterior maintenance shall be immediately due and be added to the annual assessment for such Lot and subject to the lien rights described in Article IV; provided, however, that the Association shall first give written notice to the Owner of the specific items of exterior maintenance or repair the Association intends to perform on behalf of the Owner and the Owner shall have twenty (20) days from the date of mailing of said notice within which to perform such exterior maintenance himself or herself or a longer period of time if such item cannot be done within twenty days, provided the performance thereof is being diligently pursued. The determination as to whether an Owner has neglected or failed to maintain his or her Lot and/or dwelling in a manner consistent with other Lots and dwellings within the Properties shall be made by the Board of the Association, in its sole discretion after giving the Owner an opportunity for hearing.

SECTION 3. EASEMENT TO PERFORM EXTERIOR MAINTENANCE. In order to enable the Association to accomplish the foregoing, there is hereby reserved to the Association the right to unobstructed access over and upon each Lot and to the interior of the dwelling at all reasonable times to perform maintenance and replacement as provided in this Article.

ARTICLE VII

RESTRICTIONS

SECTION 1. LAND USE. No Lot shall be used except for single-family residential purposes; provided, however, Management and Enterprises or any affiliated entity may use any Lot owned or leased as a temporary sales office and/or model for the purpose of carrying on business related to the development, improvement and sale of the Properties or the Additional Properties.

SECTION 2. DWELLING SPECIFICATIONS. No dwelling or other improvements shall be altered or reconstructed on any Lot, that would result in the dwelling being of a different exterior design and/or containing less square footage space than as originally constructed unless and until the plan is approved by the Architectural Control Committee.

SECTION 3. NUISANCE. No noxious or offensive activity shall be conducted upon any Lot or the Common Area nor shall anything be done thereon which may be or may become an annoyance or nuisance to the neighborhood. No Lot or other area within Properties shall be used as a dumping ground for rubbish or as a site for the accumulation of unsightly materials of any kind, including, without limitation, broken or rusty equipment and discarded appliances and furniture. No outdoor clotheslines shall be permitted.

SECTION 4. ANIMALS No animals, livestock or poultry of any kind shall be kept or maintained on the Common Area or on any Lot or in any dwelling except that dogs, cats or other household pets may be kept or maintained provided that they are not kept or maintained for commercial purposes and further provided that they are kept and maintained in compliance with (i) all laws and ordinances of the State of North Carolina, the county and/or city where the land lays relating thereto; and (ii) such rules and regulations pertaining thereto as the Board may adopt from time to time. In addition pets shall be on a leash held by the Owner or caretaker when outside of the dwelling. The Owner shall clean up all pet droppings immediately. Pets roaming without the Owner or other caretaker being present and caring for, is deemed a nuisance as well as continued barking or other animal noises.

SECTION 5. OUTSIDE ANTENNAS. No outside antennas or disks for reception or transmission of signals and no free standing transmission or receiving towers or satellite dishes or disks shall be erected on the Common Area or on any Lot or dwelling within the Properties without the prior written permission being granted by the Board of the Association or the Architectural Control Committee. Any approval will require the device to be to the rear of the dwelling. The ARC may add such conditions as it deems necessary or desirable to the continued use and placement of the device.

SECTION 6. PARKING. No boats, trailers, recreational vehicles, campers or other similar equipment or vehicles, excluding specifically operative automobiles, non-commercial trucks and passenger vehicle vans and mini-vans, shall be parked or stored within the Common Area, or on any Lot unless completely enclosed within a garage. No recreational vehicles, campers or other like equipment or vehicles shall be located or installed on any Lot or the Common Area to be used as a residence. Commercial vehicles shall not be parked or stored on any Lot or the Common Area within the Properties; provided, however, the foregoing shall not be construed to prevent the temporary, non-recurrent

parking of such vehicle on a Lot for a period not to exceed 24 hours or during any period the Lot is being serviced by such vehicle and excluding vehicles parked during the period of construction of dwellings and common improvements. The ARC will have authority to determine constitutes a commercial vehicle. A vehicle with a limited amount letting on the exterior will not necessarily constitute a commercial vehicle while a pick up truck or an automobile with not lettering but laden with ladders and/or other equipment may constitute a commercial vehicle in the opinion of the ARC.

SECTION 7. SUBDIVISION OF LOTS. No Lot shall be subdivided into a Lot smaller than or different from the Lot shown on the recorded plat and no street shall be laid out across or through any Lot, except with the written consent of ARC provided Declarant reserves the right to subdivide Lots, replat the same and use any lot or part thereof for street or access purposes for any Lot(s) owned by Declarant or lots or land adjacent that is not a part of the townhome development, until full development and sale of all the Lots improved with structures.

SECTION 8. SIGNS. No sign shall be placed or allowed to remain on any Lot except for ONE (1) "For Sale" sign, or one other temporary sign to advertise a temporary activity on the Lot and such other temporary sign shall not be permitted to remain on any Lot for more than Forty-Eight (48) consecutive hours. No sign deemed by the Association, the Architectural Control Committee or Declarant to be a nuisance or a detriment to the Properties shall be permitted to be erected or to remain on any Lot. Notwithstanding the foregoing, for so long as the Declarant or any affiliated entity owns any townhome Lot Declarant and any affiliate shall have the right to erect and maintain signs within the Common Area or on any Lot owned or leased by Declarant or any affiliate for the purpose of advertising and promoting the sale of such Lots and the development.

SECTION 9. MOBILE HOMES, MANUFACTURED HOMES, ETC. No mobile home, manufactured home, modular home, trailer, or other like structure shall be located or installed on any Lot. Notwithstanding the foregoing, Declarant, builders or contractors may maintain temporary improvements (such as a sales office and/or construction trailer) on any Lot or the common areas, with permission of the Declarant, during the construction and development period of the Properties.

SECTION 10. SETBACKS AND BUILDING SEPARATION. The dwelling buildings shall set back from the right of way of a street and there shall be a separation between buildings without regard to property lines as required by the building code and governmental authorities having jurisdiction of the Property.

ARTICLE VIII

EASEMENTS

SECTION 1. UTILITIES. Easements for installation and maintenance of utilities (including cable television and data service) and drainage facilities are reserved as indicated on recorded plats and as have been granted by the Declarant of record, some of which may be exclusive for a period of time and cover wiring and outlets installed within the walls of the dwelling which may not be used for any other purpose or in connection with any other service provider for a period of time. The Lot is conveyed subject to such easements. Within these easements no structures, planting or other material shall be placed or permitted to remain which may interfere with the installation, maintenance and use of utilities, or which may change the direction of flow of drainage channels in the drainage easements, or which may obstruct or retard the flow of water through drainage channels in the easements. An easement is hereby established for the benefit of the appropriate governmental entity (and any other person or firm providing services to the Properties under agreement with or at the direction of the Association) over all Common Area as may be reasonably necessary for the setting, removal and reading of water meters, and the maintenance and replacement of water, sewer, gas, cable and drainage facilities, delivery of mail, fighting of fires and collection of garbage. The Association shall have the power and authority to grant and establish upon, over and across the Common Area such additional easements as are necessary or desirable for the providing of service or utilities to the Common Area or Lots which are not in conflict with those previously granted. The Declarant has and here reserves the right to grant easements over the Common Area in the furtherance of the development of townhomes and other uses for land adjacent or a part of the Properties even though all of such land may not be subjected to this Declaration.

SECTION 2. SIGNS. The Association shall maintain all subdivision signs and landscaping and lighting surrounding same now or hereafter erected within the Common Area. The costs of all such maintenance, repair and replacement of such signs, landscaping and lighting, including decorative lighting fixtures, if any, shall be part of the common expenses of the Association, payable by the Owners as set out in Article IV hereof. Further, for so long as Declarant or any affiliated entity owns any townhome Lot shown on the Plan, Declarant and any affiliated entity shall have (i) the right to erect within the Common Area additional subdivision signs and landscaping and lighting surrounding the same to be maintained by the Association as herein provided and (ii) the right to erect within the Common Area signs advertising the sale and promotion of Lots or any portion of the Properties.

SECTION 3. EASEMENT RESERVED BY DECLARANT. Declarant hereby reserves such easements on, across and over the Common Area as shall be reasonably necessary for (i) the exercise by Declarant or any affiliated entity of any right herein reserved, including, without limitation, Declarant's right, should Declarant elect, to annex the Additional Property, as hereinafter defined and (ii) the development by Declarant or any affiliate, their respective successors and

assigns, of the Additional Property, should Declarant elect not to annex Additional Property, including without limitation easements for ingress, egress and regress over private roads and streets now or hereafter erected on the Properties and easements for the use of all utility lines, fixtures and/or their connections located within the Common Area for the purpose of providing water, light, power, telephone, sewage and sanitary service to the properties of Declarant.

SECTION 4. ENCROACHMENTS. In the event that any improvements on a Lot shall encroach upon any Common Area or upon any other Lot as a result of the initial improvements constructed by Declarant or for any reason not caused by the purposeful or negligent act of the Owner or agents of such Owner, then an easement appurtenant to such Lot shall exist for the continuance of such encroachment upon the Common Area or other Lot for so long as such encroachment shall naturally exist; and, in the event that any portion of the Common Area shall encroach upon any Lot, then an easement shall exist for the continuance of such encroachment of the Common Area into any such Lot for so long as such encroachment shall naturally exist and to replace the same if necessary in the event of destruction, and the obligation to maintain and repair the encroaching elements shall be that of the Owner and Association respectively.

SECTION 5. EASEMENT TO ASSOCIATION. Easements are granted and reserved to the Association to go upon a Lot to perform any maintenance, repair, replacement, investigation to determine course of action, to have access in the event of any emergency, which allows forced entry if required, and to do and perform any obligation, imposed or elected, under this Declaration or the Planned Community Act.

ARTICLE IX

RIGHTS RESERVED UNTO INSTITUTIONAL LENDERS

SECTION 1. ENTITIES CONSTITUTING INSTITUTIONAL LENDERS. "Institutional Lender" as the term is used herein shall mean and refer to banks, savings and loan associations, insurance companies or other firms or entities customarily affording loans secured by first liens on residences, and eligible insurers and governmental guarantors.

SECTION 2. OBLIGATION OF ASSOCIATION TO INSTITUTIONAL LENDERS. So long as any Institutional Lender shall hold any first lien upon any lot such Institutional Lender shall have the following rights provided such lender has requested, in writing to the Association, the information and has furnished a current address to the Association:

(a) To inspect the books and records of the Association during normal business hours and to be furnished with at least one (1) copy of the annual financial statement if requested in writing.

(b) To receive notice of any condemnation of casualty loss affecting the Common Area or any portion thereof.

(c) To be notified of any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association.

(d) To be given notice of any delinquency in the payment of any assessment or charge which delinquency remains uncured for a period of sixty (60) days by any Owner owning a Lot encumbered by a mortgage held by the Institutional Lender.

ARTICLE X

PARTY WALLS

SECTION 1. GENERAL RULES OF LAW TO APPLY. Each wall which is built as a part of the original construction of the homes upon the Properties and placed on the dividing line between Lots or is the dividing wall between dwellings shall constitute a party wall, and, to the extent not inconsistent with the provisions of this Article, the general rules of law regarding party walls and liability for property damage due to negligence, or willful acts or omissions shall apply thereto.

SECTION 2. REPAIR AND MAINTENANCE. The cost of reasonable repair and maintenance of a party wall shall be shared by the Owners who make the use of the wall in proportion to such use.

SECTION 3. DESTRUCTION BY FIRE OR OTHER CASUALTY. If a party wall is destroyed or damaged by fire or other casualty, any Owner who has used the wall may restore it, and if the other Owners thereafter make use of the wall, they shall contribute to the cost of restoration thereof in proportion to such use without prejudice, however, to the right of any such Owner to call for a larger contribution from the others under any rule of law regarding liability for negligent or willful acts or omissions.

SECTION 4. WEATHERPROOFING: Notwithstanding any other provision of this Article, an Owner who by his negligent or willful act causes the party wall to be exposed to the elements shall bear the whole cost of furnishing the necessary protection against such elements and repairing any damage resulting from such exposure.

SECTION 5. RIGHT TO CONTRIBUTION RUNS WITH LAND. The right of any Owner to contribution from any other Owner under this Article shall be appurtenant to the land and shall pass to such Owner's successors in title.

SECTION 6. ARBITRATION. In the event of any dispute arising concerning a party wall, or under the provisions of this Article, the matter shall be submitted to arbitration as hereinafter stated unless the parties otherwise agree.

ARTICLE XI

GENERAL PROVISIONS

SECTION 1. ENFORCEMENT. The Owner(s) of each Lot shall be governed by and shall comply with the provisions of this Declaration, the Bylaws of the Association and all Rules and Regulations of the Association adopted pursuant thereto, as any of the same are now constituted or as they may be amended from time to time and those of the Master Association. A default by any Owner shall entitle the Association or the Owner(s) of any of the other Lots to the following relief:

(a) The Association, or any Owner, if the Association is not pursuing, shall have the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, liens and charges now or hereafter imposed by the provisions of this Declaration, the Bylaws of the Association and all Rules and Regulations of the Association adopted pursuant thereto. Failure to comply with any of the terms of this Declaration or other restrictions and regulations contained in the Bylaws of the Association, or which may be adopted pursuant thereto, shall be grounds for relief including without limitation an action to recover sums due for damages, injunctive relief, foreclosure of lien, or any combination thereof. The Association shall have the right to request that law enforcement, health, public safety and animal control officers come on the Properties to facilitate the enforcement of the laws, codes and ordinances of any governmental authority.

(b) The Association, after notice to the Owner and a reasonable opportunity to be heard, shall have the right to assess reasonable fines against an Owner for violations of this Declaration the Bylaws of the Association or the Association's published Rules and Regulations by such Owner, or such Owner's family, guests, invitees and lessees in an amount not to exceed \$150.00 for each violation, and collected as set forth in Article IV of the Declaration and if not paid within thirty (30) days after notice and demand therefore, the Association shall be entitled to the remedies set forth in the Declaration for the enforcement and collection of delinquent assessments.

(c) The Association, after notice to the Owner and a reasonable opportunity to be heard, shall have the right to suspend privileges or services provided by the Association (except rights of access to Lots) for reasonable periods for violations of this Declaration or the Bylaws, Articles or Rules and Regulations of the Association. If it is decided that a suspension of privileges or services provided by the Association should be imposed, the suspension may be continued without

further hearing until the violation is cured. Such action shall not reduce the amount or delay the payment of assessments due from such Lot and its Owner.

(d) If an Owner is legally responsible for damage inflicted on any Common Area, the Association may direct such Owner to repair such damage, or the Association may itself cause the repairs to be made and recover damages from the responsible Owner. If damage is inflicted on any Lot by an agent of the Association in the scope of the agent's activities as such agent, the Association is liable to repair such damage or to reimburse the Owner for the cost of repairing such damages. When any such claim for damages against an Owner or the Association is less than or equal to the jurisdictional amount established for small claims by North Carolina General Statute 7A-210, any aggrieved party may request that a hearing be held before an adjudicatory panel appointed by the Board of the Association to determine if an Owner is responsible for damages to any Common Area or the Association is responsible for damages to any Lot. If the Board fails to appoint an adjudicatory panel to hear such matters, such hearings shall be held before the Board. Such panel shall accord to the party charged with causing damages notice of the charge, opportunity to be heard and to present evidence, and notice of the decision. This panel may assess liability for each damage incident against each Owner charged or against the Association not in excess of the jurisdictional amount established for small claims by North Carolina General Statute 7A-210. When such claim exceeds the jurisdictional amount established for small claims by North Carolina General Statute 7A-210, liability of any Owner charged or the Association shall be determined as otherwise provided by law. Liabilities of Owners determined by adjudicatory hearing or as otherwise provided by law shall be assessments secured by lien under Section 47F-3-116 of the Planned Community Act. Liabilities of the Association determined by adjudicatory hearing or as otherwise provided by law may be offset by the Owner against sums owing to the Association and if so offset, shall reduce the amount of any lien of the Association against the Lot at issue.

(e) In any proceeding arising because of an illegal default by Owner, the Association, if successful, shall be entitled to recover the costs of the proceeding and such reasonable attorney's fees as may be determined by the Court.

(f) The failure of the Association or any Owner to enforce any right, provision, covenant or condition which may be granted by this Declaration or the other above mentioned documents shall not constitute a waiver of the right of the Association or of the Owner to enforce such right, provision, covenant or condition in the future.

(g) All rights, remedies and privileges granted to the Association or the Owners, pursuant to any terms, provisions, covenants or conditions of the Declaration or other above mentioned documents, shall be deemed to be cumulative, and the exercise of any one or more shall not be deemed to constitute an election of remedies, nor shall it preclude the party thus exercising the same

from exercising such other and additional rights, remedies or privileges as may be available to such party at law or in equity.

(h) The failure of Declarant to enforce any right, privilege, covenant or condition which may be granted to it by this Declaration or other above mentioned document shall not constitute a waiver of the right of Declarant to thereafter enforce such right, provision, covenant or condition in the future.

SECTION 2. SEVERABILITY. Invalidation of any one of the covenants or restrictions by judgment or court order shall in no wise affect any other provision which shall remain in full force and effect.

SECTION 3. AMENDMENT. The covenants and restrictions of this Declaration shall run and bind the land for a term of twenty (20) years from the date this Declaration is recorded, after which time they shall be automatically extended for successive periods of ten (10) years unless terminated as hereinafter provided. This Declaration may be amended with the consent of the Owners entitled to cast at least sixty-seven percent (67%) of the votes of the Association and may be terminated with the consent of the Owners entitled to cast at least eighty percent (80%) of the votes of the Association; provided, however so long as Declarant or any affiliated entity owns any Lot or may annex Additional Property pursuant to the provisions hereinafter set forth, this Declaration may not be amended or terminated without Declarant's consent; no amendment purporting to revoke or curtail any right herein conferred to Declarant shall be effective unless executed by Declarant; and no amendment relating to the participation in the maintenance or ownership of any permanent detention or retention pond, if any, shall be effective unless reviewed and approved by the governmental office having jurisdiction for watershed protection. Any amendment must: (1) be executed on behalf of the Association by its duly authorized officers; (2) contain an attestation by the officers executing the amendment on behalf of the Association that the requisite Owner approval has been obtained and is evidence by written acknowledgement(s) signed by the Owners approving the amendment and made a part of the Minute Book of the Association; and (3) be properly recorded in the Office of the Register of Deeds where the land lays. For the purpose of this section, additions to existing property by Declarant pursuant to Section 4 of this Article shall not constitute an "amendment". In the event this Declaration is terminated in accordance with the provisions hereinabove provided, Declarant, for each Lot owned within the Properties, hereby covenants, and each Owner for any Lot, by acceptance of a deed therefore, whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay a pro rata share of the cost of the maintenance of all permanent retention or detention ponds on the Property or on property the Association is authorized to use for such purpose by agreement, if any. The Declarant reserves the right without the joinder of the Association or its Members to amend this Declaration and any other Association document in order to comply with any requirements of the FHA/VA to meet guaranty standards or requirements, to further the development

of the land owned by Declarant and to make additions, deletions, corrections and clarifications of the content of the documents as Declarant deems necessary or desirable.

SECTION 4. ANNEXATION.

(a) Except as provided in Subsection (b) of this Section 4, Article XI, additional residential property and Common Area may be annexed to the Properties only with the consent of the Members entitled to cast two-thirds (2/3) of the votes of the Association, who are voting, in person or by proxy, at a meeting duly called for such purpose; provided, however, during any Period of Declarant Control, Declarant must also consent to such action.

(b) Additional land located adjacent to the Properties (collectively, the "Additional Property") may be annexed by the Declarant without the consent of Members or the Association within ten (10) years of the date of this instrument is recorded, provided that, in the event FHA or VA insured loans have been obtained to purchase Lots, FHA or VA may determine that the annexation is in accord with the general plan from time to time approved by them. For the purpose of determining whether property is adjacent to the Properties, the rights of way of public roads and utilities, as well as rivers and streams, shall be deemed not to separate otherwise adjacent property. Declarant shall have no obligation of any kind to annex Additional Property, and should Declarant elect to annex all or any portion of the Additional Property, Declarant shall have no obligation of any kind to annex the Additional Property in any particular sequential order. Should Declarant elect to annex all or any portion of the Additional Property and accordingly to subject such property to the terms and conditions of this Declaration, with regard to all or any part of the Additional Property annexed by Declarant, to make such complementary additions and/or modifications of the covenants and restrictions contained in this Declaration the design, size or appearance of which may be different as may be necessary or convenient, in the sole judgment of the Declarant, to and reflect the different character, if any, of the added properties and as are not inconsistent with the plan of this Declaration, but such additions and/or modifications shall have no effect upon the properties previously subjected to this Declaration. With regard to any portion of the Additional Property not annexed, if any, by Declarant, Declarant makes no representations with regard to the use of such property or the exterior appearance, design, size, or intended purpose of improvements now or hereafter erected on such property.

SECTION 5. FHA/VA APPROVAL. During the Period of Declarant Control, the following actions will require the prior approval of the Federal Housing Administration of the Department of Veterans Affairs provided that FHA or VA loans have been obtained to purchase a Lot(s) and remain outstanding: annexation of additional properties, dedication of Common Area and amendment

of this Declaration of Covenant, Conditions and Restrictions of the Articles of Incorporation or the Bylaws for the Association.

SECTION 6. DWELLING INSURANCE: Each Lot Owner shall obtain and covenants and agrees with the Association, on behalf of themselves, itself, their successors, heirs and assigns, by acceptance of a deed for a Lot within the Property whether or not it be so expressed in such deed or by exercise of any act of ownership, is deemed to covenant as follows:

A. Covenant of Owner to Keep Insured:

- (a) The Owner of each Lot improved with a dwelling unit within the Property shall obtain and maintain, at each Owners individual expense, a fire/hazard insurance policy(ies) with extended coverage endorsement insuring improvements on the Owner's lot from loss or damage to the replacement cost thereof with an insurance company(ies) having at least an "A" rating with the A.M. Best Company, Incorporated or its successors. The policy shall have an inflation endorsement or be reviewed annually to reach replacement coverage. Should the rating company no longer rate insurance companies then the rating shall be obtained from another rating company or organization chosen by the Board of Directors from time to time. Each Owner at his expense shall additionally, in conjunction with the hazard policy or by separate policy(ies), maintain at least \$100,000 of general liability coverage and such policy(ies) shall waive the right of subrogation, if obtainable, as to the Association, members of the Association, its employees, agents, officers and directors. The policy(ies) shall name the Association as an additional insured. It shall be the obligation of the Owner to furnish evidence of such coverage to the Association by insurance certificate of coverage or by a copy of the policy(ies) being delivered to the Secretary of the Association, management company employed by the Association or as otherwise directed by the Board of Directors, and the policy shall provide that the insurer shall give the Association at least ten days prior written notice of its intent to cancel the coverage.
- (b) Should the Owner fail to obtain and maintain such insurance coverage and/or fail to name the Association as an additional insured and/or fail to furnish evidence of coverage to the Association, then in any one of such event(s) the Association through its Board of Directors may obtain such coverage and maintain it until evidence of coverage is furnished, however it shall not be obligated to do so and failure to do so shall not result in the Association nor the Directors being liable for failure to so obtain coverage. Should coverage be obtained by the Association as insurance trustee for the Owner, then the costs thereof shall be a special assessment on the lot and the personal obligation of the Owner(s) and be collectible as other assessments are. Such obligation

shall remain so due even if dual coverage existed due to the failure of the member to timely present evidence of coverage.

- (c) The Owner shall apply the full amount of the insurance proceeds applicable to the damage or loss to the real estate to the repair and/or replacement of the damaged dwelling unit, including but not limited to the exterior painting and roofing thereof. The repair and/or replacement of a damaged unit shall be substantially identical to the dwelling unit as it existed prior to the casualty unless changes are submitted in writing to and are approved by the Board of Directors prior to the changed repair or replacement work beginning.
- (d) The Owner shall negotiate all adjustments with the insurance company(ies) in the event of loss or damage, subject to the rights of the Association. In the event the Owner fails to negotiate and diligently pursue adjustment of the claim of loss within thirty(30) days following the event of loss or damage then and in such event the Association through its Board is empowered by the acceptance of a deed for such lot by the Owner, whether or not such is expressed or reserved therein, to adjust the claim on behalf of the Owner as to the real property damage or loss and proceed upon receipt of the insurance proceeds to repair and/or replace the dwelling as damaged and/or to remove all debris, and remaining damaged structure from the lot and landscape the area disturbed and repair any adjacent attached unit wall so a good appearance and safe condition is had. Such authority is to empower the Board with authority to act as the Owner could. The action the Board takes is in its discretion and not a directive. If the Owner is diligently pursuing adjustment and replacement of the damage the thirty day time period shall be extended so long as diligent negotiations and effort for adjustment, repair and replacement are diligently pursued, provided the Owner shall at all times take such action as is necessary to make the area safe and reasonably presentable for the benefit of the other properties, whether the claim of loss is finally settled or not and should the Owner fail to do so the Association may contract for such temporary work and materials and the costs of such shall be a special assessment on the lot and the personal obligation of the Owner and be collectible as other assessments are.
- (e) In the event of loss or damage by fire or other casualty the Owner of the lot damaged shall advise the Board in writing within thirty days after the event of loss or damage of the progress of adjustment with the insurer and plans for repair or replacement of the damaged area and shall thereafter inform the Board upon request of the progress and actions taken to repair or restore the damaged premises. Failure to do so shall authorize the Board, but not obligate it, to seek adjustment of the claim as aforesaid and upon receipt of the insurance proceeds,

contract to repair and/or replace the damage to the property to as good a condition as prior to the loss. The insurance proceeds shall be deposited in a federal agency insured bank or savings institution in a separate account in the name of the Association as insurance trustee for the Owner and Mortgagee, if any. Withdrawal of funds shall require two signatures of Board members or the Board's authorized agent. The Board shall obtain bids from at least two contractors and may then negotiate and contract with any such contractor, and may require a performance bond, if deemed necessary, for the furnishing of labor and materials to repair, reconstruct and/or replace such damage as is necessary to restore the dwelling substantially as originally constructed to the extent of the insurance proceeds. The primary objective of the Association through the Board being in the event of inaction or abandonment by the Owner(s), is to empower the Board to restore the exterior appearance and/or remove the debris in the event of total loss of a dwelling and to make the premises safe in order to maintain property values and safety in the development or to reconstruct the dwelling substantially as originally constructed. The Board may repair or restore the damaged premises in full without the consent of the Mortgagee or in part with the consent of the Mortgagee, if any. Inaction by the Board shall not be construed as a waiver of any right the Association may have. Should any funds remain after partial or full restoration and after payment of any sums due the Association shall be refunded to the Owner subject to the rights of the Mortgagee, if any.

- (f) Prior to the Board taking any action hereinabove authorized it shall give at least ten(10) days written notice to the Owner of record of its intent to act hereunder. The notice to the Owner shall be by U.S. Postal Service, certified or registered mail, return receipt requested, or by hand delivery, or by any express mail delivery service which obtains a signature acknowledging receipt. It shall be sent to any known address and the last address of the Owner as it stands at the time on the membership roll. Time of notice shall be fulfilled at midnight on the tenth day following the date of the sending of the notice which is the date of deposit for delivery with the carrier. The Board or its authorized representative(s) shall hold such meetings with the Owner(s) as are necessary to accomplish the Association's objectives.
- (g) Any funds received or paid under a policy to the Owner for loss of use or the cost of obtaining other living quarters during the period of repair or reconstruction shall be paid to the Owner.
- (h) Should a structure be condemned for habitation by any governmental authority the Association is authorized through its Board of Directors, but not obligated, to take such action and to expend such funds as are necessary, after giving the Owner written notice as aforesaid, to correct

and make safe the problems and conditions and the costs thereof shall be a special assessment and lien on the lot and the personal obligation of the Owner and be collectible as other assessments are, subject to the rights of the Mortgagee having a prior lien on the property, if any.

B. Damage to more than One Unit: In the event there is damage to more than one unit the Owners of the two or more Units shall agree on the repair or replacement of the Units and if they cannot agree then the Association through its Board which may employ an independent contractor to handle the repair and restoration, with the primary objective of the Association being to repair or restore the base premises as originally constructed. The Association through its Board or appointed representative will advise the Owner(s) of the action it is to take or meet as necessary with the Owners through arranged or set dates and times for meeting, which the Owners may attend for the purpose of informing the Owners of the action to be taken.

C. Association appointed as Attorney in Fact and Trustee for the Owner(s): If the Board elects to take charge of the repair or reconstruction of a Unit(s) then the Owner(s) irrevocably appoint the Board of Directors of the Association as Attorney in Fact and Insurance Trustee for the Owner(s) of a damaged or destroyed Unit(s) by acceptance of a deed for a Lot whether or not such appointment is expressed or set forth therein for the purpose of negotiating with the insurance company(s), receiving and disbursement of the insurance proceeds (which authority shall authorize the Board to direct that the insurance company(ies) issue a check(s) payable solely to the Association or if otherwise issued to be returned and reissued only to the Association for the benefit of the Owner(s) and Mortgagee(s)), arranging and contracting for the removal of debris, repair or reconstruction of the damaged Unit(s) to the same extent as if the Association is owner of the unit(s). The Board shall have three options in the event of damage from a hazard: (a) to deposit the insurance proceeds and release the same to the Owner and Owner's contractor as repair and reconstruction progresses. (b) to initially retain the insurance proceeds and take over the repair and reconstruction or to subsequently retain the proceeds and take over repair and replacement when the same is not progressing, in the sole opinion of the Board, timely, adequately and properly. (c) having taken over the repair or reconstruction the Board can terminate the Association's participation and release all remaining funds to the Owner(s) and the Mortgagee(s). The Board may appoint a committee to handle any matter here set over to the Association or Board, allow the Association manager to handle the matter; employ a contractor or other company or individual to supervise the matter as it deems necessary. The cost of such employment shall be paid from the insurance proceeds. The funds received by the Board or its appointed person or entity shall be held in trust for the repair and restoration of the dwelling(s) damaged for the benefit of the Owner(s) and Owners' Mortgagee. If an election is made to disburse funds to a Owner(s) such disbursement shall be made with the approval of the Mortgage holder(s) or jointly to the Owner(s) and the Mortgage holder(s). The Association or

any Board Member shall not be liable for any matter associated with the repair and reconstruction process unless a result of gross negligence or malfeasance. Any dispute that cannot be settled shall be submitted to arbitration.

SECTION 7. ARBITRATION. Each Owner, by accepting a deed to a Lot, agrees that any unresolved matter between one or more Owners, between one or more Owners and Declarant, or between one or more Owners and the Board or the Association, shall be submitted to binding arbitration pursuant to the North Carolina Uniform Arbitration Act, as set forth in N.C.G.S 1-567.1, et. seq. and as the same may be amended from time to time. The fees and expenses of arbitration shall be paid as set forth in the award and shall not be presumed to be a common expense.

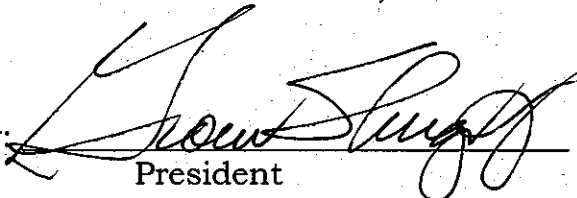
SECTION 8. NO LIABILITY. Neither Management or Enterprises, nor any subsidiary of either, nor any employee, agent, successor or assign of them, shall be liable for any claim or damage whatsoever arising out of any action(s) performed pursuant to or in accordance with any authority granted or delegated to them by this Declaration.

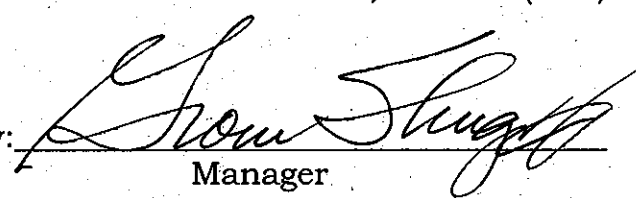
SECTION 9. AMPLIFICATION. The Provisions of this Declaration are amplified by the Articles of Incorporation and Bylaws of the Association; but no such amplification shall alter or amend any of the rights or obligations of the Owners or Declarant set forth in this Declaration. Declarant intends that the provisions of this Declaration on the one hand, and the Articles of Incorporation and Bylaws of the Association on the other be interpreted, construed, and applied to avoid inconsistencies or conflicting results. If such conflict necessarily results, however, Declarant intends that the provisions of this Declaration control anything contained in the Articles of Incorporation or Bylaws of the Association. The declaration is not intended to conflict with the North Carolina Planned Community Act and should a conflict appear the Act shall control and matters that are covered by the Act that are not covered herein shall likewise apply.

In Testimony Whereof, the duly authorized Manager of Shugart Enterprises, LLC and the dully authorized officer of Shugart Management, Inc. have executed this instrument for and on behalf of the respective companies this 6th day of July, 2006.

SHUGART MANAGEMENT, INC.

SHUGART ENTERPRISES, LLC (Seal)

By: 
President

By: 
Manager

NORTH CAROLINA - FORSYTH COUNTY

I, a Notary Public of the County of Davidson and State aforesaid, certify that Grover Shugart, Jr. who is known to me and being by me duly sworn says that he is a Manager of SHUGART ENTERPRISE, LLC a North Carolina limited liability company, and that the foregoing instrument was voluntarily and duly executed by him for an on behalf of said limited liability company. WITNESS my hand and official stamp or seal, this 6th day of July, 2006.

My commission expires: Nov 19, 2008 Judith S. Shook
Print name: JUDITH S SHOOK Notary Public

**JUDITH S SHOOK
NOTARY PUBLIC
DAVIDSON COUNTY, NC**

NORTH CAROLINA - FORSYTH COUNTY

I, a Notary Public of the County of Davidson and State aforesaid, certify that Grover Shugart, Jr. who is known to me and being by me duly sworn says that he is President of **SHUGART MANAGEMENT, INC.**, a North Corporation, and that the foregoing instrument was voluntarily and duly executed by him for an on behalf of said corporation. WITNESS my hand and official stamp or seal, this 6th day of July, 2006.

My commission expires: Nov 19, 2008 Judith S. Shook
Print name: JUDITH S SHOOK Notary Public

**JUDITH S SHOOK
NOTARY PUBLIC
DAVIDSON COUNTY, NC**

EXHIBIT A:
Saddle Brook (One Story Towns)

Being Known and Designated as **Lots 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, and 104**, as shown on the Plat of **SADDLE BROOK, PHASE ONE**, as recorded in **Plat Book 166 page(s) 10-11**, in the Office of the Register of Deeds of Guilford County, North Carolina, to which reference is made for a more particular description.
