

BY-LAWS OF
VALLEY SPRINGS SUBDIVISION

ARTICLE I

NAME AND LOCATION

The name of the non-profit corporation is VALLEY SPRINGS HOMEOWNERS' ASSOCIATION, INC. hereinafter referred to as the "Association." The initial principal office of the corporation shall be located at 5310 NC Highway 55, Suite 101, Durham, NC 27713, but meetings of members and directors may be held at such place within the State of North Carolina, County of Durham, as may be designated by the Board of Directors.

ARTICLE II

DEFINITIONS

Section 1. "Association" shall mean and refer to VALLEY SPRINGS HOMEOWNERS' ASSOCIATION, INC., its successors and assigns.

Section 2. "Community" shall mean and refer to that certain real property described in the DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR VALLEY SPRINGS, as amended from time to time, and such additions thereto as may be made by Declarant or by the Association pursuant to the Declaration.

Section 3. "Common Area" shall mean all areas, if any, for which the Association has responsibility pursuant to the Declaration, any recorded plat, or other covenants, contracts, or agreements. The Common Area shall include all of the "Common Property" (as defined in the Declaration), if any, which consists of the real property, including property in the "open space" or conservation easement property, interests in real property, and personal property, easements, and other interests, together with improvements located on that property (if any) which are now or are hereafter owned by the Association for the common use and enjoyment of some or all of the Owners including the storm drainage systems which serve the subdivision to the extent that they are outside dedicated rights of way.

Section 4. "Lot" shall mean and refer to any plot of land within the Community, whether or not improvements are constructed on that land, which constitutes or will constitute, after the construction of improvements, a Single-Family Detached site shown on a plat recorded in the Office of the Durham County Register of Deeds. The ownership of each Lot shall include, and there shall pass with each Lot as an appurtenance thereto (whether or not separately described), all of the right, title, and interest of an Owner in the Common Property supporting said Lot and membership in the Association.

Section 5. "Owner" shall mean the record owner, whether one or more persons or entities, of the fee simple title to any Lot located within the Community; excluding those holding such interest merely as security for the performance or satisfaction of any obligation.

Section 6. "Declaration" shall mean and refer to the DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR VALLEY SPRINGS, as amended from time to time, applicable to the Community and recorded in the Office of the Register of Deeds for Durham County, North Carolina.

Section 7. "Member" shall mean and refer to every person who is a member of the Association.

ARTICLE III

MEETINGS OF MEMBERS

Section 1. Annual Meetings. The first annual meeting of the Members shall be held at a date and time determined by the Declarant, and each subsequent regular annual meeting of the Members shall be held on approximately the same day of the same month of each year thereafter, as determined by the Board of Directors from time to time. If the day for the annual meeting of the Members is a legal holiday, the meeting will be held at the same hour on the first day following which is not a legal holiday. All meetings of Members shall be conducted according to the most current edition of Robert's Rules of Order.

Section 2. Special Meetings. Special meetings of the Members may be called at any time by the President or by the Board of Directors, or upon written request of the Members who are entitled to vote one-fourth (1/4) of all of the votes of the Class A Membership.

Section 3. Notice of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the secretary or person authorized to call the meeting, by mailing a copy of such notice, postage prepaid, at least ten (10) days before such meeting to each member entitled to vote thereat, addressed to the Member's address last appearing on the books of the Association, or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and, in the case of a special meeting, the purpose of the meeting.

Section 4. Quorum. The presence at the meeting of Members entitled to cast, or of proxies entitled to cast, one-fifth (1/5) of the votes of each class of Membership shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation, the Declaration, or these By-Laws. If, however, such quorum shall not be present or represented at any meeting, the Members entitled to vote there at shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or be represented.

Section 5. Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary of the Association not later

than the beginning of the meeting. Every proxy shall be revocable and shall automatically cease upon conveyance by the member of his or her Lot.

Section 6. Voting. Members shall be comprised of Classes of members, in accordance with the Declaration, and such members (the Members) shall have such voting rights as are described in and consistent with the Declaration, which is incorporated herein by reference thereto.

ARTICLE IV

TERM OF OFFICE

Section 1. Number. The affairs of this Association shall be managed initially by a Board of one (1) director, who need not be a Member of the Association. Provided, however, that the initial Board of Directors shall consist of Bruce Knott who shall manage the affairs of the Association until the first annual meeting. The Association may increase the size of the Board up to five (5) by a majority vote of the Members.

Section 2. Term of Office. At the first annual meeting and at each annual meeting thereafter, the Members shall elect three (3) directors, each to serve for a rotating period of three (3) years. Notwithstanding the term, each director shall serve until his or her successor is elected.

Section 3. Removal. Any director may be removed from the Board, with or without cause, by a majority vote of the Members of the Association. In the event of death, resignation or removal of a director, his or her successor shall be selected by the remaining Members of the Board and shall serve for the unexpired term of his or her predecessor.

Section 4. Compensation. No director shall receive compensation for any service he or she may render to the Association. However, any director may be reimbursed for his or her actual expenses incurred in the performance of his or her duties.

Section 5. Action Taken Without a Meeting. The directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written approval of all the directors. Any action so approved shall have the same effect as though taken at a meeting of the directors.

ARTICLE V

NOMINATION AND ELECTION OF DIRECTORS

Section 1. Nomination. Nomination for election to the Board of Directors may be made by a Nominating Committee if one is convened and chooses to make such nominations. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chairman, who shall be a member of the Board of Directors, and two or more Members of the Association. The Nominating Committee may be appointed by the

Board of Directors prior to an annual meeting of the Members. The Nominating Committee may make as many nominations for election to the Board of Directors as it shall in its discretion determine, but normally not less than the number of vacancies that are to be filled. Such nominations may be made from among Members or non-Members.

Section 2. Election. Election to the Board of Directors shall be by secret written ballot. At such election, the Members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected. Cumulative voting is not permitted.

ARTICLE VI

MEETINGS OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the Board of Directors shall be held at such intervals as may be determined by the Board of Directors. Regularly-scheduled meetings shall take place without notice, at such place and hour as may be fixed from time to time by resolution of the Board. Should said meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held when called by the President of the Association, or by any two directors, after not less than three (3) days notice to each director.

Section 3. Quorum. A majority of the number of directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE VII

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1. Powers. The Board of Directors shall have power to:

(a) adopt and publish rules and regulations governing the use of the Common Area and facilities, and the personal conduct of the Members and their guests thereon, and to establish penalties for the infraction thereof;

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

(c) exercise for the Association all powers, duties and authority vested in or delegated to this Association and not reserved to the Membership by other provisions of these By-Laws, the Articles of Incorporation, or the Declaration;

(d) declare the office of a member of the Board of Directors to be vacant in the event such member shall be absent from four (4) consecutive regular meetings of the Board of Directors; and

(e) employ a manager, an independent contractor, or such other employees as they deem necessary, and to prescribe their duties.

Section 2. Duties. It shall be the duty of the Board of Directors to:

(a) cause to be kept a complete record of all its acts and corporate affairs and to present a statement thereof to the Members at the annual meeting of the Members, or at any special meeting when such statement is requested in writing by one-fourth (1/4) of the Class A Members who are entitled to vote;

(b) supervise all officers, agents and employees of this Association, and to see that their duties are properly performed; including the hiring of a Property Manager to oversee the day to day operations of the Association on terms it sees as reasonable and customary;

(c) as more fully provided in the Declaration, to:

(1) fix the amount of the annual assessment and any other assessment permitted by the Declaration against each Lot;

(2) send written notice of each assessment to every Owner subject thereto at least thirty (30) days in advance of each annual assessment period; and

(3) foreclose the lien against any property for which assessments are not paid within thirty (30) days after the due date or to bring an action at law against the owner personally obligated to pay the same;

(d) issue, or to cause an appropriate officer to issue upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of these certificates. If a certificate states an assessment has been paid, such certificate shall be conclusive evidence of such payment;

(e) procure and maintain adequate liability and hazard insurance on property owned by the Association;

(f) cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate;

(g) cause the Common Area and the exterior of the residences to be maintained.

Section 3. Indemnity. To the fullest extent allowed by applicable North Carolina law, the Association shall indemnify every officer of the Association and director of the Association against any and all expenses, including, without limitation, attorney's fees, imposed upon or reasonably incurred by an officer or director in connection with any action, suit, or other proceeding to which such officer or director may be a party by reason of being or having been an officer or director. The officers and directors shall not be liable for any mistake of judgment, negligent or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith.

ARTICLE VIII

OFFICERS AND THEIR DUTIES

Section 1. Election of officers. The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the Members.

Section 2. Term. The officers of this Association shall be elected annually by the Board and each shall hold office for three (3) years, unless he or she shall sooner resign, or shall be removed, or otherwise disqualified to serve.

Section 3. Special Appointments. The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may, from time to time, determine.

Section 4. Resignation and Removal. Any officer may be removed from office with or without cause by the Board. Any officer may resign at any time giving written notice to the Board, the President or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

Section 6. Multiple Offices. The offices of Secretary and Treasurer may be held by the same person. No person shall simultaneously hold more than one of any of the other offices, except in the case of special offices created pursuant to Section 3 of this Article.

Section 7. Duties. The duties of the officers are as follows:

President

(a) The President shall preside at all meetings of the Board of Directors and Association Membership; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes.

Vice-President

(b) The Vice-President shall act in the place and stead of the President in the event of his or her absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him or her by the Board.

Secretary

(c) The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; keep the corporate seal of the Association and affix it on all papers requiring said seal; serve notice of meetings of the Board and of the Members; keep appropriate current records showing the Members of the Association, together with their addresses, and shall perform such other duties as required by the Board.

Treasurer

(d) The Treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board of Directors; shall sign all checks and promissory notes of the Association; keep proper books of account; cause an annual audit of the Association books to be made by a public accountant at the completion of each fiscal year; and shall prepare an annual budget and a statement of income and expenditures to be presented to the Membership at its regular annual meeting, and deliver a copy of each to the Members.

ARTICLE IX

COMMITTEES

The Association shall appoint an Architectural Committee (or the Board shall serve as such committee), at such time, and in such manner, as is provided with greater specificity in the Declaration, which states that the Declarant initially has the right to appoint all members of the Architectural Committee but that upon the expiration or surrender in writing of such right, the Board of Directors of the Association shall appoint the Architectural Committee. The Association may also appoint a Nominating Committee as provided in these By-Laws. In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose.

ARTICLE X

BOOKS AND RECORDS

The books, records and papers of the Association shall at all times, during reasonable business hours, be subject to inspection by any member. The Declaration, the Articles of Incorporation and the By-Laws of the Association shall be available for inspection by any Member at the principal office of the Association, where copies may be purchased at reasonable cost.

ARTICLE XI

ASSESSMENTS

As more fully provided in the Declaration, each Member is obligated to pay to the Association annual and special assessments and any other assessment described therein, which are secured by a continuing lien upon the property against which the assessment is made. Any assessments which are not paid when due shall be delinquent. If the assessment is not paid within thirty (30) days after the due date, the assessment shall bear interest from the date of delinquency at the rate of eighteen (18%) percent per annum or on the principal amount due, or the maximum rate permitted by law, whichever is lesser, and the Association may bring an action at law against the Owner personally obligated to pay the same or foreclose the lien against the property, and interest, costs, and reasonable attorney's fees of any such action shall be added to the amount of such assessment. No Owner may waive or otherwise escape liability for the assessments provided for therein by non-use of the Common Area or abandonment of his Lot.

ARTICLE XII

AMENDMENTS

Section 1. Prior to the first annual meeting of the Members, these By-Laws may be amended by the Declarant. After the first annual meeting of the Members, these By-Laws may be amended, at a regular or special meeting of the Members, by a vote of two-thirds of the Members, voting in person or by proxy, or by Declarant according to the Declaration.

Section 2. In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles of Incorporation shall control; and in the case of any conflict between the Declaration and these By-Laws, the Declaration shall control.

ARTICLE XIII

MISCELLANEOUS

Section 1. The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

Section 2. Rules regarding the rights and obligations of Members, as well as rules regarding the Association, are stated in the Declaration, which Declaration is hereby incorporated by reference and by such act the Declaration, as it may be amended from time to time, is expressly made a part of these Bylaws.

These By-Laws are hereby certified to be the By-Laws of the Corporation.

DECLARANT

SAB Valley Springs, LLC,
a North Carolina limited liability company

By: 
Name: Bruce W. Knott
Title: Manager