

APPENDIX "A"

BY-LAWS

OF

BEACHWALK VILLAS CONDOMINIUM ASSOCIATION, INC.

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1. IDENTITY

These are the By-Laws of Beachwalk Villas Condominium Association, Inc., an eleemosynary corporation organized and existing under the laws of the State of South Carolina (hereinafter called "the Association"), which has been organized for the purpose of administering Beachwalk Villas Horizontal Property Regime, a horizontal property regime established pursuant to S. C. Code Ann. §§27-31-10 et seq. (1976) (hereinafter called "the Regime"). The Regime is identified by the name Beachwalk Villas and is located upon the real property in Beaufort County, South Carolina, described on Exhibit "A" attached hereto and made a part hereof by reference.

(a) The provisions of these By-Laws are applicable to the Regime, and the terms and provisions hereof are expressly subject to the effect of the terms, provisions, conditions, and authorizations contained in the Charter and Articles of Incorporation of the Association and in the Master Deed which has been recorded in the public records of Beaufort County, South Carolina, at the time portions of said property and the improvements now or hereafter situate thereon were submitted to the plan of condominium ownership. The terms and provisions of said Charter, Articles of Incorporation and Master Deed shall be controlling wherever the same may be in conflict with these By-Laws.

(b) All present or future co-owners, tenants, future tenants, or their employees, or any other person that might use the Regime or any of the facilities thereof in any manner, are subject to the regulations set forth in these By-Laws and in said Charter, Articles of Incorporation and Master Deed (and any amendments thereto).

(c) The office of the Association shall be at Beachwalk Villas Condominiums, South Shipyard Drive, Shipyard Plantation, Hilton Head Island, South Carolina, or such other place as the Board of Directors of the Association may designate from time to time.

(d) The fiscal year of the Association shall be the calendar year.

(e) The seal of the Association shall bear the name of the Association and the word "South Carolina".

2. MEMBERSHIP, VOTING, QUORUM, PROXIES

(a) The qualification of members, the manner of their admission to membership and termination of such membership, and voting by members, shall be as set forth in Article III of the Articles of Incorporation of the Association, the provisions of which said Article III of the Articles of Incorporation are incorporated herein by reference.

(b) The quorum at members' meetings shall consist of persons entitled to cast a majority (51% of the value of the property) of the votes of the entire membership. The joinder of a member in the action of a meeting by signing and concurring in the minutes thereof shall constitute the presence of such person for the purpose of determining a quorum.

(c) The vote of the co-owners of an Apartment owned by more than one person or by a corporation or other entity shall be cast by the person named in a certificate signed by all of the co-owners of the Apartment and filed with the Secretary of the Association, and such certificate shall be

valid until revoked by subsequent certificate. If such a certificate is not on file, the vote of such co-owners shall not be considered in determining the requirement for a quorum, nor for any other purpose.

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(d) Votes may be cast in person or by proxy. Proxies must be filed with the Secretary before the appointed time of the meeting for which their use is sought.

(e) Approval or disapproval of an Apartment co-owner upon any matters, whether or not the subject of an Association meeting, shall be by the same person who casts the vote of such co-owner if in an Association meeting.

(f) Except where otherwise required under the provisions of the Charter or Articles of Incorporation of the Association, these By-Laws, the Master Deed, or where the same may otherwise be required by law, the affirmative vote of the co-owners of a majority of the Apartments represented at any duly called members' meeting at which a quorum is present shall be binding upon the members.

3. ANNUAL AND SPECIAL MEETINGS OF MEMBERSHIP

(a) The annual members' meeting shall be held at the office of the Association or such other place as may be designated by the Board of Directors, at 10:00 a.m., Eastern Standard Time, on the first Saturday in March of each year for the purpose of electing directors and of transacting any other business authorized to be transacted by the members; provided, however, that if that day is a legal holiday, the meeting shall be held at the same hour on the next succeeding Saturday. The first annual meeting shall be held in 1981.

(b) Special members' meetings shall be held whenever called by the President or Vice President or by a majority of the Board of Directors, and must be called by such officers upon receipt of a written request from the members of the Association owning a majority of the Apartments.

(c) Notice of all members' meetings, regular or special, shall be given by the President, Vice President or Secretary of the Association, or other officers of the Association in the absence of said officers, to each member, unless waived in writing, such notice to be written or printed and to state the time and place and object for which the meeting is called. Such notice shall be given to each member not less than ten (10) days nor more than sixty (60) days prior to the date set for such meeting, which notice shall be mailed or presented personally to each member within said time. If presented personally, receipt of such notice shall be signed by the member, indicating the date on which such notice was received by him. If mailed, such notice shall be deemed properly given when deposited in the United States mails addressed to the member at his post office address as it appears on the records of the Association, the postage thereon prepaid. Proof of such mailing shall be given by the affidavit of the person giving the notice. Any member may, by written waiver of notice signed by such member, waive such notice, and such waiver, when filed in the records of the Association, whether before or after the holding of the meeting, shall be deemed equivalent to the giving of such notice to such member. If any members' meeting cannot be organized because a quorum has not been attended, or because the greater percentage of the membership required to constitute a quorum for particular purposes has not attended, wherever the latter percentage of attendance may be required as set forth in the Articles of Incorporation, these By-Laws or the Master Deed, the members who are present, either in person or by proxy, may adjourn the meeting from time to time until a quorum, or the required percentage of attendance if greater than a quorum, is present.

(d) At meetings of membership, the President shall preside or, in the absence of him, the membership present shall select a chairman.

(e) The order of business at annual members' meetings, and, as far as practical, at any other members' meeting, shall be:

- j) Calling of the roll and certifying proxies
- ii) Proof of notice of meeting or waiver of notice
- iii) Reading of minutes
- iv) Reports of officers
- v) Reports of committees
- vi) Appointment by chairman of inspectors of election
- vii) Election of directors
- viii) Unfinished business
- ix) New business
- x) Adjournment

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4. BOARD OF DIRECTORS

(a) The first Board of Directors of the Association and succeeding Boards of Directors, shall consist of five (5) persons. At least a majority of the Board of Directors shall be members of the Association, or shall be authorized representatives, officers, or employees of a corporate member of the Association. So long as Justice Builders, Inc., hereinafter referred to as the "Developer", is the co-owner of five (5) or more Apartments in the Regime, the Developer shall have the right to designate and select all of the persons who shall serve as members of each Board of Directors of the Association; and so long as the Developer is the co-owner of at least one, but not more than four (4) Apartments, the Developer shall have the right to designate and select a majority of the persons who shall serve as a member of each Board of Directors of the Association. The power of the Developer to designate directors as above referred to shall terminate on December 31, 1981. The Developer has heretofore (in the Articles of Incorporation of the Association) designated the initial Board of Directors and Officers of the Association.

(b) Election of directors shall be conducted in the following manner:

i) The Developer, as Sponsor of the Regime, shall, at the beginning of the election of the Board of Directors, designate and select that number of the members of the Board of Directors which it should be entitled to designate and select in accordance with the provisions of these By-Laws, and upon such designation and selection by the Developer by written instrument presented to the meeting at which such election is held, said individuals so designated and selected by the Developer shall be deemed and considered for all purposes directors of the Association, and shall thenceforth perform the offices and duties of such directors until their successors shall have been selected or elected in accordance with the provisions of these By-Laws.

ii) All members of the Board of Directors whom the Developer shall not be entitled to designate and select under the terms and provisions of these By-Laws, shall be elected by a plurality of the votes cast at the annual meeting of the members of the Association immediately following the designation and selection of the members of the Board of Directors whom the Developer shall be entitled to designate and select.

iii) Vacancies in the Board of Directors may be filled until the date of the next annual meeting by the remaining directors, except that should any vacancy in the Board of Directors be created in any directorship previously filled by any person designated and selected by the Developer, such vacancy shall be filled by Grantor designating and selecting, by written instrument delivered to any officer of the Association, the successor director to fill the vacated directorship for the unexpired term thereof.

iv) At the first annual meeting of the members held after the property identified herein has been submitted to the plan of condominium ownership and the Master Deed has been recorded in the public records of Beaufort County, South Carolina, the term of office of the three (3) directors receiving the highest plurality of votes shall be established at two (2) years,

and the term of office of the other two (2) directors shall be established at one year. Thereafter, as many directors of the Association shall be elected at the annual meeting as there are regular terms of office of directors expiring at such time, and the term of the directors so elected at the annual meeting of the members each year shall be for two (2) years expiring at the second annual meeting following their election, and thereafter until their successors are duly elected and qualified or until removed in the manner elsewhere provided or as may be provided by law for the removal of directors of South Carolina corporations for profit. If at the time of the first annual meeting, the Developer is the co-owner of at least one (1), but not more than four (4) Apartments, then the Developer shall have the right to designate and select two (2) directors whose term of office shall be established at two (2) years, and one director whose term of office shall be established at one year.

v) In the election of directors, there shall be appurtenant to each Apartment as many votes for directors as there are directors to be elected (regardless of the percentage interest in common elements appurtenant to such Apartment); provided, however, that no member or co-owner of any Apartment may cast more than one vote for any person nominated as director, it being the intent hereof that voting for directors shall be non-cumulative.

vi) In the event that the Developer, in accordance with the privilege granted unto it, selects any person or persons to serve on any Board of Directors of the Association, the Developer shall have the absolute right at any time, in its sole discretion, to replace any such person or persons with another person or persons to serve on said Board of Directors. Replacement of any person or persons designated by the Developer to serve on any Board of Directors of the Association shall be made by written instrument delivered to any officer of the Association, which instrument shall specify the name or names of the person or persons designated as successor or successors to the person or persons so removed from said Board of Directors. The removal of any director and designation of his successor shall be effective immediately upon delivery of such written instrument by the Developer to any officer of the Association.

(c) The organizational meeting of newly elected Board of Directors shall be held within ten (10) days of its election, at such time and at such place as shall be fixed by the directors at the meeting at which they were elected, and no further notice of the organization meeting shall be necessary provided a quorum shall be present.

(d) Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the directors. Notice of regular meetings shall be given to each director, personally or by mail, telephone or telegram, at least three (3) days prior to the day named for such meeting, unless notice is waived.

(e) Special meetings of the directors may be called by the President, and must be called by the Secretary at the written request of one-third (1/3) of the votes of the Board. Not less than three (3) days' notice of a meeting shall be given to each director, personally, or by mail, telephone or telegram, which notice shall state the time, place and purpose of the meeting.

(f) Any director may waive notice of a meeting before or after the meeting, and such waiver shall be deemed equivalent to the giving of notice.

(g) A quorum at a directors' meeting shall consist of the directors entitled to cast a majority of the votes of the entire Board. The acts of the Board approved by a majority of the votes present at a meeting at which a quorum is present shall constitute the acts of the Board of Directors except as specifically otherwise provided in the Articles of Incorporation, these By-Laws or the Master Deed. If any director's meeting cannot be organized because a quorum has not attended, or because the greater percentage of the directors required to constitute a quorum for particular purposes has not attended, wherever the latter percentage of attendance may be required as

set forth in the Articles of Incorporation, these By-Laws or the Master Deed, the directors who are present may adjourn the meeting from time to time until a quorum, or the required percentage of attendance if greater than a quorum, is present. At any adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice. The joinder of a director in the action of a meeting by signing and concurring the minutes thereof shall constitute the presence of such director for the purpose of determining a quorum.

(h) The presiding officer of directors' meetings shall be the President. In the absence of the President, the directors present shall designate one of their number to preside.

(i) Directors' fees, if any, shall be determined by the members.

(j) The Board of Directors shall manage and direct the affairs of the Association and subject to any restrictions imposed by law, by the Master Deed, or these By-Laws, may exercise all of the powers of the Association subject only to approval by the co-owners when such is specifically required of these By-Laws. The Board of Directors shall exercise such duties and responsibilities as shall be incumbent upon it by law, the Master Deed or these By-Laws, if it may deem necessary or appropriate in the exercise of its powers and shall include, without limiting the generality of the foregoing, the following:

(i) To make, levy and collect assessments against members and members' Apartments to defray the cost of the common areas and facilities of the Regime, and to use the proceeds of said assessments in the exercise of the powers and duties granted unto the Association;

(ii) To carry out the maintenance, care, upkeep, repair, replacement, operation, surveillance and the management of the general and limited elements, services and facilities of the Regime wherever the same is required to be done and accomplished by the Association for the benefit of its members;

(iii) To carry out the reconstruction of improvements after casualty and the further improvement of the property, real and personal;

(iv) To make and amend regulations governing the use of the property, real and personal, in the Regime so long as such regulations or amendments thereto do not conflict with the restrictions and limitations which may be placed upon the use of such property under the terms of the Master Deed;

(v) To acquire, operate, lease, manage and otherwise trade and deal with property, real and personal, including Apartments in the Regime, as may be necessary or convenient in the operation and management of the Regime, and in accomplishing the purposes set forth in the Master Deed; provided, however, that any agreement for professional management of the Regime, or any other contract providing for services of the Grantor, may not exceed three years. Any such agreement must provide for termination by either party without cause and without payment of a termination fee on ninety (90) days or less written notice;

(vi) Subject to the provisions of subparagraph (v) above, to contract for the management of the common areas and facilities in the Regime and to designate to such contractor all of the powers and duties of the Association, except those which may be required by the Master Deed to have approval of the Board of Directors or membership of the Association;

(vii) To enforce by legal means the provisions of the Articles of Incorporation and By-Laws of the Association, the Master Deed and the regulations hereinafter promulgated governing use of the property in the Regime;

(viii) To pay all taxes and assessments which are liens against any party of the Regime other than Apartments and the appurtenances thereto, and to assess the same against the members and their respective Apartments subject to such liens;

(ix) To carry insurance for the protection of the Regime, members and the Association against casualty, liability and other risks;

(x) To pay all costs of power, water, sewer and other utility services rendered to the condominium and not billed to the owners of the separate Apartments; and

(xi) To employ personnel for reasonable compensation to perform the services required for proper administration of the purposes of the Association as well as to dismiss said personnel.

(k) The first Board of Directors of the Association shall be comprised of the five (5) persons designated to act and serve as directors in the Articles of Incorporation, which said persons shall serve until their successors are elected at the first meeting of the members of the Association called after Phases I and II of the property identified herein have been submitted to the plan of condominium ownership and the Master Deed has been recorded in the public records of Beaufort County, South Carolina. Should any member of said first Board of Directors be unable to serve for any reason, a majority of the remaining members of the Board of Directors shall have the right to select and designate a party to act and serve as a director for the unexpired term of said director who is unable to serve.

(l) The undertakings and contracts authorized by said first Board of Directors shall be binding upon the Association in the same manner as though such undertakings and contracts had been authorized by the first Board of Directors duly elected by the membership after the property identified herein has been submitted to the plan of condominium ownership and said Master Deed has been recorded in the Beaufort County public records, so long as any undertakings and contracts within the scope of powers and duties which may be exercised by the Board of Directors of the Association in accordance with all applicable Regime documents.

(m) Directors may be removed from office in the manner provided by law for the removal of directors of South Carolina corporations for profit.

5. ADDITIONAL PROVISIONS ABOUT MEETINGS OF MEMBERS & DIRECTORS

(a) Notwithstanding anything contained in these By-Laws to the contrary any meeting of members of directors may be held at any place within or without the State of South Carolina of which notice is waived by any person otherwise entitled thereto at, during or after any such meeting.

(b) To the extent now or from time to time hereafter permitted by the law of South Carolina the directors may take any action which they might take at a meeting of directors without a meeting, a record of any such action so taken, signed by each director, to be retained in the Association's minute book and given equal dignity by all persons to the minutes of meetings duly called and held.

6. OFFICERS

(a) The executive officers of the Association shall be a President, who shall be a director, a Treasurer and a Secretary, all of whom shall be elected annually by the Board of Directors and who may be peremptorily removed by vote of the directors at any meeting. No person may hold two (2) or more offices. The Board of Directors shall from time to time elect such other officers and designate their powers and duties as the Board shall find to be required to manage the affairs of the Association.

(b) The President shall be the chief executive officer of the Association. He shall have all the powers and duties which are usually vested in the office of the President of an association, including, but not limited to, the power to appoint committees from among the members from time to time, as he may in his discretion determine appropriate, to assist in the conduct of the affairs of the Association.

(c) Any Vice President shall, in the absence or disability of the President, exercise the powers and perform the duties of President. He shall also generally assist the President and exercise such other powers and perform such other duties as shall be prescribed by the directors.

(d) The Secretary shall keep the minutes of all proceedings of the directors and the members. He shall attend to the giving and serving of all notices to the members and directors, and such other notices required by law. He shall have custody of the seal of the Association and affix the same to instruments requiring a seal when duly signed. He shall keep the records of the Association, except those of the Treasurer, and shall perform all other duties incident to the office of Secretary of an association and as may be required by the directors or President. The Assistant Secretary shall perform the duties of Secretary when the Secretary is absent.

(e) The Treasurer shall have custody of all of the property of the Association, including funds, securities and evidences of indebtedness. He shall keep the assessment rolls and accounts of members; he shall keep the books of the Association in accordance with good accounting practices; and he shall perform all other duties incident to the office of Treasurer.

(f) The compensation of all officers and employees of the Association shall be fixed by the directors. This provision shall not preclude the Board of Directors from employing a director as an employee of the Association, nor preclude the contracting with a director from management of the Regime.

7. FISCAL MANAGEMENT

The provisions for fiscal management of the Association set forth in the Master Deed and Articles of Incorporation shall be supplemented by the following provisions:

(a) The assessment roll shall be maintained in a set of accounting books in which there shall be an account for each Apartment. Such an account shall designate the name and address of the co-owner or co-owners, the amount of each assessment against the co-owners, the dates and amount in which assessments come due, the amounts paid upon the account and the balance due upon assessments.

(b) The Board of Directors shall adopt a budget for each calendar year which shall contain estimates of the cost of performing the function of the Association, including, but not limited to, the following items:

(i) Common expense budget, which shall include without limiting the generality of the foregoing, the estimated amounts necessary for maintenance and operation of General Common Elements, landscaping, street and walkways, office expense, swimming pool, utility services, casualty insurance, liability insurance, administration and reserves (operating and replacement); and

(ii) Proposed assessments against each member. Copies of the proposed budget and proposed assessments shall be transmitted to each member on or before January 1st of the year for which the budget is made. If the budget is subsequently amended before the assessments are made, a copy of the amended budget shall be furnished each member concerned. Delivery of a copy of any budget or amended budget to each member shall not affect the liability of any member for any such assessment, nor shall delivery of a copy of such budget or amended budget be considered as a condition precedent to the effectiveness of said budget and assessments levied pursuant

thereto, and nothing herein contained shall be construed as restricting the right of the Board of Directors to at any time in their sole discretion levy an additional assessment in the event that the budget originally adopted shall appear to be insufficient to pay costs and expenses of operation and management, or in the event of emergencies.

(c) The Board of Directors shall determine the method of payment of such assessments and the due dates thereof and shall notify the members thereof. The assessments will initially be on a quarterly basis unless changed by a vote of the majority of the Board of Directors.

(d) The depository of the Association shall be such bank or banks as shall be designated from time to time by the directors and in which the monies of the Association shall be deposited. Withdrawal of monies from such accounts shall be only by checks signed by such persons as are authorized by the directors.

(e) An audit of the accounts of the Association shall be made annually and a copy of the report shall be furnished to each member not later than April 1st of the year following the year for which the report is made.

(f) Fidelity bonds may be required by the Board of Directors from all officers and employees of the Association and from any contractor handling or responsible for Association funds. The amount of such bonds shall be determined by the directors, but shall be at least the amount of the total annual assessments against members for common expenses. The premiums on such bonds shall be paid by the Association.

8. PARLIAMENTARY RULES

Roberts Rules of Order (latest edition) shall govern the conduct of corporate proceedings when not in conflict with the Articles of Incorporation and these By-Laws or with the statutes of the State of South Carolina.

9. AMENDMENTS TO BY-LAWS

Amendments to these By-Laws shall be proposed and adopted in the following manner:

(a) Amendments to these By-Laws may be proposed by the Board of Directors of the Association acting upon vote of the majority of the directors, or by members of the Association owning a majority of the total value of the property in the Regime, whether meeting as members or by instrument in writing signed by them.

(b) Upon any amendment or amendments to these By-Laws being proposed by said Board of Directors or members, such proposed amendment or amendments shall be transmitted to the President of the Association, or other officer of the Association in absence of the President, who shall thereupon call a special joint meeting of the members of the Board of Directors of the Association and the membership for a date not sooner than twenty (20) days or later than sixty (60) days from receipt by such officer of the proposed amendment or amendments, and it shall be the duty of the Secretary to give to each member written or printed notice of such meeting in the same form and in the same manner as notice of the call of a special meeting of the members if required as herein set forth.

(c) In order for such amendment or amendments to become effective, the same must be approved by an affirmative vote of the members owning not less than two-thirds (2/3) of the total value of the property in the Regime. Thereupon, such amendment or amendments to these By-Laws shall be transcribed, certified by the President and Secretary of the Association, and a copy thereof shall be recorded in the public records of Beaufort County, South Carolina, within ten (10) days from the date on which any amendment or amendments have been affirmatively approved by the directors and members.

(d) At any meeting held to consider such amendment or amendments to the By-Laws, the written vote of any member of the Association shall be recognized if such member is not in attendance at such meeting or represented thereat by proxy, provided such written vote is delivered to the Secretary of the Association at or prior to such meeting.

(e) Notwithstanding the foregoing provisions of this Article 9, no amendment to these By-Laws which shall abridge, amend or alter the right of the Developer to designate and select members of each Board of Directors of the Association, as provided in Article 4 hereof, may be adopted or become effective without the prior written consent of the Developer.

10. INSURANCE

Section 1. Insurance Required. The Board of Directors shall obtain and maintain, to the extent available, at least the following insurance:

A. Hazard Insurance. The Association shall insure all Apartments and all Common Elements against all hazards and risks normally covered by a standard hazard policy, including fire and lightning, the hazards and risks covered by "extended coverage", and vandalism and malicious mischief. All Apartments and all Common Elements shall be insured for the full replacement cost thereof (without deduction or allowance for depreciation), and the policy of insurance shall have a full replacement cost rider. Such insurance shall cover only the Apartments and the Common Elements. The hazard insurance obtained by the Association may provide that an amount not to exceed one thousand dollars (\$1,000.00) shall be deductible from any indemnity payable on account of a single loss, but any such deductible portion shall be borne by the Association as a Common Expense regardless of the number of co-owners or Apartments directly affected by the loss. The hazard insurance obtained by the Association shall provide coverage for common expenses with respect to the Apartments and Common Elements during any period of repair or reconstruction.

B. Liability Insurance. The Association shall also obtain premises liability insurance on all Apartments and Common Elements and the Association providing for a single-limit indemnity of not less than one million dollars (\$1,000,000.00) and covering bodily and personal injury and property damage. Such liability insurance shall cover claims of one or more Co-Owners against one or more other Co-Owners as well as claims of third parties against one or more Co-Owners. The Association shall not be required, however, to obtain public liability insurance covering accidents occurring within the limits of an Apartment or off the Regime Property. If available at a reasonable cost, the Association shall cause to be included within the policy of liability insurance premises medical payment coverage.

C. The Association shall also obtain and maintain workmen's compensation insurance to the extent necessary to comply with any applicable law.

D. The Association shall also obtain and maintain such other policies of insurance, including insurance for other risks of a similar or dissimilar nature, as are or shall hereafter be considered appropriate by the Board of Directors.

Section 2. Limitations. Any insurance obtained pursuant to the requirements of this article shall be subject to the following provisions:

A. General Provisions. All insurance obtained on the Apartments and General Common Elements by the Association shall be written in the name of the Association as trustee for the Owners, and the cost of such insurance shall be a Common Expense. All such insurance shall be obtained from a company or companies licensed to do business in the State of South Carolina (South Carolina admitted carriers) and rated "A+" or better and classified "10" or better by the most recent issue of Best's Insurance Reports. No such insurance shall be permitted to expire except upon resolution of a majority of the Co-Owners to that effect. Duplicate originals or copies of all

policies of hazard insurance obtained on the Regime by the Board of Directors, together with proof of payment of the premiums thereon, shall be delivered upon request to any Co-Owner or any entity holding a lien upon or security interest in any Apartment.

B. Hazard Policy Provisions. All policies of hazard insurance on the Apartments and the Common Elements obtained by the Board of Directors shall provide as follows:

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1. The indemnity payable on account of any damage to or destruction of the Apartments or the Common Elements shall be payable to any mortgagees holding mortgages in any damaged Apartments as their interests may appear;

2. The policy shall not be cancelled without thirty (30) days' prior written notice to the Board of Directors and to every holder of a security interest in any Apartment who is named in the policy or an endorsement thereto;

3. No Co-Owner shall be prohibited from insuring his own Apartment for his own benefit;

4. No insurance obtained by a Co-Owner on his own Apartment shall be brought into contribution with the insurance obtained by the Board of Directors.

5. If the Board of Directors determines that it is possible to obtain such a provision, no right of subrogation shall exist against any Owner or members of his household or his social guests;

6. The insurer shall not be entitled to reconstruct in lieu of paying the indemnity in cash if the Owners determine in the manner provided in the Master Deed not to repair or restore the damaged property; and

7. The policy shall not be cancelled on account of the actions of one or more, but fewer than a majority, of the Co-Owners.

If a policy of insurance containing all of the foregoing provisions cannot be obtained at a reasonable cost, one or more of such provisions (except provisions 1 and 2 above) may be waived by unanimous resolution of the Board of Directors preceded by ten (10) days' notice to every Co-Owner or by resolution of a majority of the Co-Owners.

C. Claims. The Board of Directors of the Association shall have exclusive authority to negotiate and settle on behalf of the Owners all claims arising under policies of hazard insurance obtained on the Property by the Board of Directors. In the event of damage to or destruction of any portion of the Apartments or the Common Elements, the Board of Directors shall promptly file claim for any indemnity due under any such policies. The Board of Directors shall simultaneously notify the holders of any security interests in the Property who may be entitled to participate in such claim of the filing of the same.

D. Insurance Proceeds. The net proceeds received by or due to the Board of Directors from any indemnity paid under a policy of hazard insurance obtained on the Property by the Board of Directors shall promptly be paid by the Board of Directors or the appropriate insurer to an Insurance Trustee as trustee for the Co-Owners as hereinafter provided. The Insurance Trustee shall be a state or federally chartered bank selected by the Board of Directors and having trust powers and capital and surplus of five million dollars (\$5,000,000.00) or more. The Insurance Trustee shall hold the insurance proceeds in trust and disburse said proceeds, after deduction of all reasonable fees and expenses of the Insurance Trustee, as follows:

1. If the Co-Owners determine in the manner provided in the Master Deed not to reconstruct the damaged property, the Insurance Trustee shall distribute the insurance proceeds among all the Owners and/or mortgagees with liens upon the Apartments, as their respective interests may appear, in proportion to their respective undivided interests in the portion or portions of the property damaged or destroyed.

2. If the Board of Directors is required to provide for the reconstruction of the damaged property, the Insurance Trustee shall disburse the insurance proceeds to the person or persons employed by the Board of Directors to effect such reconstruction in accordance with written authorizations submitted to the Insurance Trustee by the architect supervising the reconstruction or by the Board of Directors. Any portion of the insurance proceeds remaining after all the costs of reconstructing the Property have been paid shall be disbursed to the Co-Owners in proportion to their interests in the portion or portions of the Property repaired or restored.

In making disbursements of the insurance proceeds, the Insurance Trustee shall be entitled to rely without further inquiry upon the written authorizations submitted as provided above or upon any written certification of facts submitted to the Insurance Trustee by the Board of Directors as hereinafter provided. The Insurance Trustee shall in no event be responsible for obtaining insurance on the Property, paying the premiums on any such insurance or filing claims for any payments due under any such insurance.

E. Insurance by Owners. Each Co-Owner shall be responsible for obtaining such amounts of the following types of insurance as he deems necessary or desirable:

- 1. Hazard insurance on his Apartment for his own benefit;
- 2. Hazard insurance on the contents of his Dwelling and on improvements made to his Apartment; and
- 3. Liability insurance covering accidents occurring within the boundaries of his Apartment.

Any Owner who obtains hazard insurance on his Apartment for his own benefit shall within thirty (30) days of obtaining the same deliver to the Board of Directors a copy of the policy of insurance.

G. Where the insurance proceeds are insufficient to cover the cost of reconstruction, the rebuilding costs shall be paid by all the co-owners directly affected by the damage, in proportion to the value of their respective apartments, or as may be provided in the By-Laws; and if any one or more of those composing the minority shall refuse to make such payments, the majority may proceed with the reconstruction at the expense of all the co-owners benefited thereby, upon proper resolution setting forth the circumstances of the case and the cost of the works, with the intervention of the Association.

11. ASSESSMENTS: LIABILITY, LIEN AND ENFORCEMENT

The Association is given the authority to administer the operation and management of the Regime, it being recognized that the delegation of such duties to one entity is in the best interests of the co-owners of all Apartments. To properly administer the operation and management of the project, the Association will incur, for the mutual benefit of all of the co-owners of Apartments, costs and expenses which will be continuing or non-recurring costs, as the case may be, which costs and expenses are sometimes herein referred to as "common expense". To provide the funds necessary for such proper operation and management, the said Association has heretofore been

granted the right to make, levy and collect assessments against the co-owners of all Apartments and said Apartments. In furtherance of said grant of authority to Association to make, levy and collect assessments to pay the costs and expenses for the operation and management of the Regime, the following provisions shall be operative and binding upon the co-owners of all Apartment, to wit:

(a) All assessments levied against the co-owners of Apartments and said Apartments shall, unless specifically otherwise provided for in these By-Laws, be in the same proportion that the amount of assessment levied against each co-owner of an Apartment and his Apartment shall bear the same ratio to the total assessment made against all co-owners of Apartments and their Apartments as does the undivided interest in General Common Elements appurtenant to each Apartment bear to the total undivided interest in Association be the co-owner of any Apartment or Apartments, the assessment which would otherwise be payable to Association by the co-owner of such Apartment or Apartments, reduced by and Apartment or Apartments by the Association, shall be apportioned and assessment therefor levied ratably among the co-owners of all Apartments which are not owned by the Association, based upon their proportionate interests in the General Common Elements exclusive of interests therein appurtenant to any Apartment or Apartments owned by Association.

(b) The assessment levied against the co-owner of each Apartment and his Apartment shall be payable in annual, quarterly or monthly installments, or in such other installments and at such times as may be determined by the Board of Directors of the Association.

(c) The Board of Directors of the Association shall establish an annual budget in advance for each fiscal year which shall correspond to the calendar year, and such budget shall project all expenses for the forthcoming year which may be required for the proper operation, management and maintenance of the Regime, including a reasonable allowance for contingencies and reserves, such budget to take into account projected anticipated income which is to be applied in reduction of the amount required to be collected as an assessment each year. Upon adoption of such annual budget by the Board of Directors of Association, copies of said budget shall be delivered to each co-owner of an Apartment and the assessment for said year shall be established based upon such budget, although the delivery of a copy of said budget to each co-owner shall not affect the liability of any co-owner for such assessment. Should the Board of Directors at any time determine, in the sole discretion of said Board of Directors, that the assessments levied are or may prove to be insufficient to pay the costs of operation and management of the Regime, or in the event of emergencies, said Board of Directors shall have the authority to levy such additional assessment or assessments as it shall deem to be necessary.

(d) The Board of Directors of Association, in establishing said annual budget for operation, management and maintenance of the project shall include therein a sum to be collected and maintained as reserve fund for replacement of General Common Elements, which reserve fund shall be for the purpose of enabling the Association to replace structural elements and mechanical equipment constituting a part of the General Common Elements as well as the replacement of personal property which may constitute a portion of the General Common Elements held for the joint use and benefit of all of the co-owners of all Apartments. The amount to be allocated to such reserve fund for replacements shall be established by said Board of Directors so as to accrue and maintain at all times a sum reasonably necessary to anticipate the need for replacements of said General Common Elements. The amount collected and allocated to the reserve fund for replacements from time to time shall be maintained in a separate account by Association, although nothing herein contained shall limit Association from applying any monies in such reserve fund for replacements to meet other needs or requirements of Association in operating or managing the project in the event of emergencies, or in the event the sums collected from the co-owners of Apartments are insufficient to meet the then fiscal financial requirements of Association, but

it shall not be a requirement that these monies be used for such latter purposes, as a separate assessment may be levied therefor if deemed to be preferable by the Board of Directors of the Association in the sole discretion of said Board of Directors.

44.

(e) The Board of Directors of the Association, in establishing said annual budget for operation, management and maintenance of the project, shall include therein a sum to be collected and maintained as a general operating reserve which shall be used to provide a measure of financial stability during periods of special stress when such sums may be used to meet deficiencies from time to time existing as a result of delinquent payment of assessments by co-owners of Apartments, as a result of emergencies or for other reason placing financial stress upon the Association.

(f) All monies collected by the Association shall be treated as the separate property of the Association, and such monies may be applied by the said Association to the payment of any expense of operating and managing the Regime, or to the proper undertaking of all acts and duties imposed upon it by virtue of these By-Laws and Master Deed of said Association and as the monies for any assessment are paid unto the Association by any co-owner of an Apartment the same may be commingled with the monies paid to the Association by the other co-owners of Apartments. Although all funds and other assets of the Association, and any increments thereto or profits derived therefrom, or from the leasing or use of General Common Elements, shall be held for the benefit of the members of the Association, who shall own any common surplus in the proportions of their percentage of undivided interest in the Regime, no member of the Association shall have the right to assign, hypothecate, pledge or in any manner transfer this membership interest therein, except as an appurtenance to his Apartment.

(g) The payment of any assessment or installment thereof due to the Association shall be in default if such assessment, or any installment thereof, is not paid unto Association, on or before the due dates for such payment. When in default, the Board of Directors may accelerate the remaining installments of the annual assessment upon notice thereof to the Apartment co-owner, whereupon the entire unpaid balance of the annual assessment shall become due upon the date stated in the notice, which shall not be less than ten (10) days after the date of the notice. In the event any assessment, installment, or accelerated assessments are not paid within twenty (20) days after their due date, the Association, through its Board of Directors, may proceed to enforce and collect the said assessments against the Apartment co-owner owing the same in any manner provided for by the Act, including the right of foreclosures and sale. When in default, the delinquent assessment or delinquent installment thereof due to Association shall bear interest at the rate of eight percent (8%) per annum until such delinquent assessment or installment thereof, and all interest due thereon, has been paid to Association.

(h) The co-owner or co-owners of each Apartment shall be personally liable to Association for the payment of all assessments, regular or special, which may be levied by Association while such party or parties are co-owner or co-owners of an Apartment in the Regime. In the event that any co-owner or co-owners are in default in payment of any assessment or installment thereof owed to the Association, such co-owner or co-owners of any Apartment shall be personally liable for interest on such delinquent assessment or installment thereof as above provided, and for all costs of collecting such assessment or installment thereof and interest thereon, including a reasonable attorney's fee, whether suit be brought or not.

(i) No co-owner or an Apartment may exempt himself from liability for any assessment levied against such co-owner and his Apartment by waiver of the use or enjoyment of any of the General Common Elements, or by abandonment of the Apartment, or in any other manner.

(j) Recognizing that the necessity for providing proper operation and management of the project entails the continuing payment of costs and

expenses therefor, which results in benefit to all of the co-owners of Apartments, and that the payment of such common expense represented by the assessments levied and collected by Association is necessary in order to preserve and protect the investment of the co-owner of each Apartment, Association is hereby granted a lien upon such Apartment and its appurtenant undivided interest in General Common Elements, which lien shall secure and does secure the monies due for all assessments now or hereafter levied against the co-owner of each Apartment, which lien shall also secure interest, if any, which may be due on the amount of any delinquent assessments owing to the Association, and which lien shall also secure all costs and expenses, including a reasonable attorney's fee, which may be incurred by the Association in enforcing this lien upon said Apartment and its appurtenant undivided interest in the General Common Elements. The lien granted to Association may be foreclosed in the same manner as mortgages may be foreclosed in the State of South Carolina, and in any suit for the foreclosure of said lien, the Association shall be entitled to rental from the co-owner of any Apartment from the date on which the payment of any assessment or installment thereof became delinquent and shall be entitled to the appointment of a receiver for said Apartment. The rental required to be paid shall be equal to the rental charged on comparable type of Apartments in Hilton Head Island, South Carolina. The lien granted to the Association shall further secure such advances for taxes, and payments on account of superior mortgages, liens, or encumbrances which may be required to be advanced by the Association in order to preserve and protect its lien, and the Association shall further be entitled to interest at the rate of eight percent (8%) per annum on any such advances made for such purpose.

(k) The lien herein granted unto Association shall be effective from and after the time or recording in the public records of Beaufort County, South Carolina, a claim of lien stating the description of the Apartment encumbered thereby, the name of the record co-owner, the amount due and the date when due, and the lien shall include only assessments which are due and payable when the claim of lien is recorded, plus interest, costs, attorney's fees, advances to pay taxes and prior encumbrances and interest thereon, all as above provided. Such claims of lien shall be signed, and verified by an officer or agent of the Association. Upon full payment of all sums secured by such claim of lien, the same shall be satisfied of record. The claim of lien filed by the Association shall be subordinate to the lien of any mortgage encumbering the Apartment.

In the event that any person, firm or corporation shall acquire title to any Apartment and its appurtenant undivided interest in General Common Elements by virtue of any foreclosure, judicial sale or deed in lieu of foreclosure, such person, firm or corporation so acquiring title shall only be liable and obligated for assessments as shall accrue and become due and payable for said Apartment and its appurtenant undivided interest in General Common Elements subsequent to the date of acquisition of such title, and shall not be liable for the payment of any assessments which were in default and delinquent at the time it acquired such title subject to the lien of any assessment by Association representing an apportionment of taxes or special assessment levied by taxing authorities against the Regime in its entirety. In the event of the acquisition of title to an Apartment by foreclosure, judicial sale or deed in lieu of foreclosure, any assessment or assessments as to which the party so acquiring title shall not be liable shall be absorbed and paid by all co-owners of all Apartments as a part of the common expense, although nothing herein contained shall be construed as releasing the party liable for such delinquent assessment from the payment thereof or the enforcement of collection of such payment by means other than foreclosure.

(l) Whenever any Apartment may be sold by the co-owner thereof, which sale shall be concluded only upon compliance with other provisions of these By-Laws, the Association upon written request of the co-owner of such Apartment shall furnish to the proposed purchaser a statement verifying the status of payment of any assessment which shall be due and payable to Association by the co-owner of such Apartment. Such statement shall be executed by an officer of the Association and any purchaser may rely upon such statement in concluding the proposed purchase transaction, and Association shall

be bound by such statement. Any holder of any mortgage on any Apartment shall have the right at all reasonable times and frequency to inquire as to the past due status of any assessment payments, and the Association shall, upon request, promptly notify any such mortgagee when any assessment payment becomes more than sixty (60) days past due, or when any default in the performance of any obligation required by the Master Deed or these By-Laws as to such Apartment is not cured within sixty (60) days. 44

In the event that an Apartment is to be sold at the time when payment of any assessment against the co-owner of said Apartment and such Apartment due to Association shall be in default (whether or not a claim of lien has been recorded by the Association) then the proceeds of such purchase shall be applied by the purchaser first to payment of any then delinquent assessment or installment thereof due to Association before the payment of any proceeds of purchase to the co-owner of any Apartment who is responsible for payment of such delinquent assessment.

In any voluntary conveyance of an Apartment (other than a deed in lieu of foreclosure as set forth above), the Grantee shall be jointly and severally liable with the Grantor for all unpaid assessments against Grantor made prior to the time of such voluntary conveyance, without prejudice to the rights of the Grantee to recover from the Grantor the amounts paid by the Grantee therefor.

Institution of a suit at law to attempt to effect collection of the payment of any delinquent assessment shall not be deemed to be an election by Association which shall prevent its thereafter seeking enforcement of the collection of any sums remaining owing to it by foreclosure, nor shall proceeding by foreclosure to attempt to effect such collection be deemed to an election precluding the institution of suit at law to attempt to effect collection of any sums then remaining owing to it.

Notwithstanding anything in these By-Laws to the contrary, it is declared that until December 31, 1982, each Apartment shall be exempt from the assessment created herein until such time as the Apartment is conveyed by the Developer to a Grantee owner. Except as expressly provided herein, no Apartment and its appurtenant percentage interest shall be exempt from said assessment. Moreover, until such time as an Apartment is conveyed by the Developer to a Grantee, the Developer shall be assessed and pay to the Association in lieu of an assessment thereof a sum equal to the actual amount of actual operating expenditures made by the Association against co-owners of Apartments other than those owned by the Grantor. The actual operating expenditures for this purpose shall also include any reserve for replacements or operating reserves. Commencing January 1, 1983, the Grantor shall be subject to assessments as provided for in these By-Laws so that it will pay assessments on the same basis provided for under these By-Laws as the same are paid by Apartment co-owners.

12. DEFINITIONS

The definitions contained in S.C. Code Ann., §27-31-20 (1976), are hereby incorporated herein and made a part hereof by reference.

13. CONFLICTS

In the event of any conflict between the provisions of the Master Deed and the provisions of these By-Laws, the provisions of the Master Deed shall control.