BYLAWS

OF

SCOTTS MILL HOMEOWNERS ASSOCIATION, INC.

ARTICLE I

NAME AND LOCATION

The name of the corporation is Scotts Mill Homeowners Association, Inc. hereinafter referred to as the "Association." The principal office of the corporation shall be located in Cary, Wake County, North Carolina, but meetings of members and directors may be held at such places within Wake County, North Carolina, as may be designated by the Board of Directors.

ARTICLE II

DEFINITIONS

SECTION 1. "Affiliate" shall mean any corporation more than fifty percent (50%) of the voting stock of which is owned or controlled by the Declarant, and any partnership, joint venture or limited liability company in which the Declarant has more than a fifty percent (50%) equity interest or an interest in fifty percent (50%) or more of the cash flow from such partnership, joint venture or limited liability company.

Section 2. "Association" shall mean and refer to Scotts Mill Homeowners Association, Inc., its successors and assigns.

Section 3. "Common Property" shall mean all real property together with any improvements located thereon, owned by the Association for the common use and enjoyment of the Owners. The term "Common Property" shall also include any personal property owned or leased by the Association and designated "Common Property".

Section 4. "Declarant" shall mean and refer to Stratford Woods, LLC, a North Carolina corporation, its successors and assigns, if Declarant shall expressly convey its rights as developer under the Declaration to such successor or assign.

Section 5. "Declaration" shall mean and refer to the Declaration of Covenants, Conditions, Restrictions and Easements for Scotts Mill recorded in the Office of the Register of Deeds of Wake County, North Carolina, together with all supplements and amendments thereto, now or hereafter recorded. The capitalized terms used herein shall have the meaning set forth in the Declaration.

Section 6. "Lot" shall mean and refer to any separately numbered plot of land, townhome lot or condominium unit shown upon any recorded subdivision map or plan of condominium of any portion of the Properties, as more fully described in the Declaration, with the exception of the Common Property, Neighborhood Common Property and dedicated streets and shall include the dwelling constructed thereon.

Section 7. "Member" shall mean and refer to those persons or entities entitled to membership with voting rights as provided in the Declaration and in Article III of these Bylaws.

Section 8. "Neighborhood Common Property" shall mean all real property, together with any improvements located thereon, owned by any Neighborhood Association, as defined in the Declaration, for the common use and enjoyment of the members of such Neighborhood Association. The term "Neighborhood Common Property shall also include any personal property owned or leased by the Neighborhood Association and designated for the common use and enjoyment of such association's members.

Section 9. "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, including contract sellers, but excluding those having such interest as security for the performance of an obligation.

Section 10. "Properties" shall mean and refer to that certain real property subjected to the Declaration of Covenants, Conditions and Restrictions for Scotts Mill and such additions thereto as may hereafter be brought within the jurisdiction of the Association.

ARTICLE III

MEMBERSHIP AND PROPERTY RIGHTS

Section 1. Membership. All Owners and Declarant shall be Members of the Association. The voting rights of the Members shall be as provided by the Declaration. When more than one person holds an interest in any Lot, all such persons shall be Members. The vote or votes for such Lot shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot. The President of the Association shall have the authority to require that such multiple Owners of a Lot file a Certificate with the Secretary of the Association, signed by all of the Owners, designating the person entitled to cast the vote for such Lot. Such Certificate shall be valid until revoked by a subsequent Certificate. If such Certificate is not filed when required, the vote of such Owners shall not be considered in determining the requirements for a quorum or for any other purpose.

Section 2. Property Rights. Each Member shall be entitled to the use and enjoyment of the facilities as provided in the Declaration. Any Owner may delegate his right of enjoyment to the Common Property and facilities to the members of his family, to his tenants, or to contract purchasers who reside on the Property.

ARTICLE IV

MEETINGS OF MEMBERS

Section 1. Annual Meetings. The first annual meeting of the Members shall be held within one year from the date of incorporation of the Association, and each subsequent regular annual meeting of the Members shall be held in the same month of each year thereafter at such time and place as the Board of Directors may prescribe.

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 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 fifteen (15) 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. Waiver by a Member in writing of the notice required herein, signed by him before or after such meeting, shall be equivalent to the giving of such notice.

Section 4. Quorum. The presence at the meeting of Members entitled to cast, or of proxies entitled to cast, one-tenth (1/10) 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 Bylaws. If, however, such quorum shall not be present or represented at any meeting, the Members entitled to vote thereat 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. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his Lot.

ARTICLE V

BOARD OF DIRECTORS; SELECTION; TERM OF OFFICE

Section 1. Number. The affairs of this Association shall be managed by a Board of Directors who need not be Members of the Association. The number of directors of the Association shall be not less than one (1) nor more than three (3), which number may be fixed or changed from time to time, within the minimum and maximum, by a vote of the majority of each class of Members or by the Board of Directors. The number of directors constituting the initial Board of Directors shall be three (3) and such directors shall serve until the first annual meeting of the Members.

Section 2. Term of Office. The term of the initial director of the Association shall expire at the first annual meeting of the Members. The terms of all other directors shall expire at the next annual meeting of the Members following their election.

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 successor shall be selected by the remaining members of the Board, and shall serve for the unexpired term of his predecessor.

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

NOMINATION AND ELECTION OF DIRECTORS

Section 1. Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meet-

ing. 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 shall be appointed by the Board of Directors prior to each annual meeting to serve until the close of the next annual meeting and such appointment shall be announced at each annual meeting. The Nominating Committee shall make as many nominations for election to the Board of Directors as it shall in its discretion determine, but 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 VII

MEETINGS OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place and with such notice as shall be determined by resolution of a majority of the Directors.

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 VIII

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 Property 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 the use of any recreational facilities of a Member during any period in which such Member shall be in default in the payment of any assessment, dues or charge 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 Bylaws, 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 three (3) consecutive regular meetings of the Board of Directors.

(e) contract for the benefit of the Properties and to delegate to such contractors all of the powers and duties of the Association, except those which may be required by the Declaration to have approval of the Board of Directors or membership of the Association. The undertakings and contracts authorized by the initial Board of Directors (including contracts for the management of Scotts Mill) shall be binding upon the Association in the same manner as though such undertakings and contracts had been authorized by any Board of Directors duly elected by the membership after the recording of this Declaration, so long as such undertakings and contracts are within the scope of the powers and duties which may be exercised by the Board of Directors of the Association in accordance with the Declaration, the Articles of Incorporation and these Bylaws; and provided further that, any undertaking or contract entered into by the Association at a time before the Declarant has transferred control of the Association to Owners shall contain a provision reserving the right of the Association to terminate such undertaking or contract upon not more than ninety (90) days written notice to the other party(ies) thereto.

(f) employ attorneys to represent the Association when deemed necessary.

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

(a) cause to be kept a complete record of all of its acts and corporate affairs and to present a statement thereof to the Members at the Annual Meeting of the Members, or 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.

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

(1) fix the amount of the annual assessment against each Lot at least thirty (30) days in advance of each annual assessment period.

(2) send written notice of each assessment to every Owner subject thereto at least thirty (30) days in advance of each annual assessment period (provided, however, that failure of any Owner to receive such notice shall in no way affect the obligation of such Owner to pay annual assessments); and

(3) in the discretion of the Board of Directors, foreclose the lien against any property for which assessments are not paid within thirty (30) days after 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 insurance covering the Association, its directors, officers, agents and employees and procure and maintain adequate hazard insurance on the real and personal property owned by the Association as follows:

(1) A policy of property insurance in an amount equal to the full replacement value (i.e., 100% of current "replacement cost" excluding land, foundations, excavations, streets and parking facilities) of the Common Property owned by the Association (including all building service and related equipment) with an Agreed Amount Endorsement or its equivalent, if available, or an Inflation Guard Endorsement. Such insurance policy must protect against loss or damage by fire and other hazards covered by the standard extended coverage endorsement, and by sprinkler leakage, debris removal, cost of demolition, vandalism, malicious mischief and

windstorm. If coverage is available, the policy may include coverage for water damage.

(2) A comprehensive policy of public liability insurance insuring the Association in an amount not less than One Million Dollars ($1,000,000.00) for claims for personal injury and/or Property damage arising out of a single occurrence, such coverage to include protection against liability for non-owned and hired automobiles and liability for property of others, and, if available, may include coverage for water damage.

(3) If the Association elects to manage its own affairs and directly receive and disburse its own funds (or, if in addition to professional management, the officers or directors of the Association can and do directly receive or disburse the monies of the Association), the Board of Directors shall maintain fidelity coverage against dishonest acts by the Association's officers, directors, trustees and employees, and all others who are responsible for handling funds of the Association. If the Association employs a professional property management Person or firm to manage the Association and to receive and disburse the monies of the Association, then such professional management person or firm shall have adequate fidelity coverage against dishonest acts and the existence of such coverage shall satisfy the requirement of this paragraph.

Any such fidelity bonds shall name the Association as an obligee; shall be written in an amount equal to at least 150% of the estimated annual operating expenses of the Association, including reserves; shall contain waivers of any defense based on the exclusion of persons who serve without compensation from any definition of "employee" or similar expression; and shall provide that they may not be canceled or substantially modified (including cancellation for non-payment of premium) without at least thirty (30) days prior written notice to the Association and to any Institutional Lender who has given the notice required under Article IX, Section 3, of the Declaration.

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

(g) cause the Common Property to be maintained.

(h) maintain any dedicated streets within the Properties which are not accepted for dedication by an appropriate governmental authority.

(i) if and when appropriate pursuant to Article VI of the Declaration, cause the exterior of dwellings on Lots to be maintained or cause dwellings on Lots to be repaired or rebuilt in the event of casualty damage.

(j) maintain such properties and perform such services as set out in the Declaration.

ARTICLE IX

OFFICERS AND THEIR DUTIES

Section 1. Enumeration of Offices. The officers of this Association shall be a president and one vice-president, who shall at all times be members of the Board of Directors, a secretary, assistant secretary, and a treasurer, and such other officers as the Board may from time to time by resolution create, including additional vice-presidents who need not be members of the Board of Directors.

Section 2. 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 3. Term; Compensation. The officers of this Association shall be elected annually by the Board and each shall hold office for one (1) year unless he or she shall sooner resign, or shall be removed, or otherwise disqualified to serve. No officer shall receive compensation for services rendered in such capacity to the Association; provided, however, that an officer may be reimbursed for actual expenses incurred in the performance of such duties.

Section 4. 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 5. Resignation and Removal. Any officer may be removed from office with or without cause by the Board. Any officer may resign at any time by giving written notice to the Board, the president or 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 6. 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 7. Duties. The duties of the officers are as follows:

(a) President. The president shall preside at all meetings of the Board of Directors; 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.

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

(c) Secretary and Assistant Secretary. 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 Association together with their addresses, and shall perform such other duties as required by the Board. The assistant secretary shall assist the secretary and act in the place and stead of the secretary in the event of his or her absence.

(d) Treasurer. 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 an independent certified public accountant at the completion of each fiscal year; and shall prepare an annual budget and 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 X

COMMITTEES

The Board of Directors shall appoint an Architectural Control Committee, as provided in the Declaration, and a Nominating Committee, as provided in these Bylaws. In addition,

the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose.

ARTICLE XI

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, and any Institutional Lender, as that term is defined in the Declaration. The Declaration, the Articles of Incorporation and the Bylaws 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 XII

ASSESSMENTS

As more fully provided in the Declaration, each Member is obligated to pay to the Association annual and special assessments 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 ten percent (10%) per annum, 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 the assessments. No Owner may waive or otherwise escape liability for the assessments provided for herein by nonuse of the Common Property or abandonment of his Lot.

ARTICLE XIII

CORPORATE SEAL

The Association shall have a seal in circular form having within its circumference the words: Scotts Mill Homeowners Association, Inc., North Carolina.

ARTICLE XIV

AMENDMENTS

Section 1. These Bylaws may be amended, at a regular or special meeting of the Members, by the vote of a majority of the quorum of Members present and entitled to vote in person or by

proxy. In addition, 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 maintenance or ownership of any permanent detention or retention pond shall be effective unless reviewed and approved by the governmental office having jurisdiction for watershed protection.

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

ARTICLE XV

MISCELLANEOUS

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.

CERTIFICATION

I, the undersigned, do hereby certify:

THAT I am the duly elected and acting Secretary of Scotts Mill Homeowners Association, Inc., a North Carolina corporation, and

THAT the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Board of Directors thereof, held on the _____ day of _____, 19__.

_____
Secretary

(CORPORATE SEAL)