

BY-LAWS

OF

THE PENINSULA PROPERTY OWNER'S ASSOCIATION, PHASE ONE, INC.

Article I

Name, Principal Office and Definitions

Section 1. Name. The name of the Association shall be **THE PENINSULA PROPERTY OWNER'S ASSOCIATION, PHASE ONE, INC.** (the "**PHASE ONE ASSOCIATION**").

Section 2. Principal Office. The principal office of the **PHASE ONE ASSOCIATION** in the State of Alabama shall be located in Baldwin County. The **PHASE ONE ASSOCIATION** may have such other offices, either within or outside the State of Alabama, as the **PHASE ONE BOARD OF DIRECTORS** may determine or as the affairs of the **PHASE ONE ASSOCIATION** may require.

Section 3. Definitions. The words used in these **PHASE ONE BY-LAWS** shall have the same meaning as set forth in that **DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR THE PENINSULA, PHASE ONE** (said Declaration, as amended, renewed or extended from time to time, is hereinafter sometimes referred to as the "**PHASE ONE DECLARATION**"), unless the context shall prohibit.

Article II

PHASE ONE ASSOCIATION:

Membership, Meetings, Quorum, Voting, Proxies

Section 1. Membership. The **PHASE ONE ASSOCIATION** shall have two (2) classes of membership, Class "A" and Class "B", as more fully set forth in the **PHASE ONE DECLARATION**, the terms of which pertaining to membership are specifically incorporated herein by reference.

Section 2. Place of Meetings. Meetings of the **PHASE ONE ASSOCIATION** shall be held at the principal office of the **PHASE ONE ASSOCIATION** or at such other suitable place convenient to the **MEMBERS** as may be designated by the **PHASE ONE BOARD OF DIRECTORS** either within the **PROPERTIES** or as convenient thereto as possible and practical.

Section 3. Annual Meetings. Except as provided herein, the first meeting of the **PHASE ONE ASSOCIATION**, whether a regular or special meeting, shall be held within one (1) year from the date of incorporation of the **PHASE ONE ASSOCIATION**. Meetings shall be of the **VOTING MEMBERS** or their alternates. Subsequent regular annual meetings shall be set by the **PHASE ONE BOARD** so as to occur at least ninety (90) but not more than one hundred twenty (120) days before the close of the fiscal year of the **PHASE ONE ASSOCIATION** on a date and at a time set by the **PHASE ONE BOARD OF DIRECTORS**. Provided, however, anything else herein contained to the contrary, so long as the Class "B" membership exists, no meetings of the **MASTER ASSOCIATION** shall take place unless called by the Class "B" **MEMBER**.

Section 4. Special Meetings. The President may call special meetings. In addition, it shall be the duty of the President to call a special meeting of the **PHASE ONE ASSOCIATION** if so directed by resolution of a **MAJORITY** of a quorum of the **PHASE ONE BOARD OF DIRECTORS** or upon a petition signed by **VOTING MEMBERS** representing at least ten (10%) percent of the total votes of the **PHASE ONE ASSOCIATION**. The notice of any special meeting shall state the date, time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice.

Section 5. Notice of Meetings. Written or printed notice stating the place, day and hour of any meeting of the VOTING MEMBERS shall be delivered, either personally or by mail, to each VOTING MEMBER entitled to vote at such meeting, not less than ten (10) nor more than fifty (50) days before the date of such meeting, by or at the direction of the President or the Secretary or the officers or PERSONS calling the meeting.

In the case of a special meeting or when required by statute or these PHASE ONE BY-LAWS, the purpose or purposes for which the meeting is called shall be stated in the notice. No business shall be transacted at a special meeting except as stated in the notice.

If mailed, the notice of a meeting shall be deemed to be delivered when deposited in the United States mail addressed to the VOTING MEMBER at his address as it appears on the records of the PHASE ONE ASSOCIATION, with postage thereon prepaid.

Section 6. Waiver of Notice. Waiver of notice of a meeting of the VOTING MEMBERS shall be deemed the equivalent of proper notice. Any VOTING MEMBER may, in writing, waive notice of any meeting of the VOTING MEMBERS, either before or after such meeting. Attendance at a meeting by a VOTING MEMBER or alternate shall be deemed waiver by such VOTING MEMBER of notice of the time, date and place thereof, unless such VOTING MEMBER specifically objects to lack of proper notice at the time the meeting is called to order. Attendance at a special meeting shall also be deemed waiver of notice of all business transacted thereat unless objection to the calling or convening of the meeting, of which proper notice was not given, is raised before the business is put to a vote.

Section 7. Adjournment of Meetings. If any meeting of the PHASE ONE ASSOCIATION cannot be held because a quorum is not present, a MAJORITY of the VOTING MEMBERS who are present at such meeting, either in person or by alternate, may adjourn the meeting to a time not less than five (5) nor more than thirty (30) days from the time the original meeting was called. At the reconvened meeting, if a quorum is present, any business which might have been transacted at the meeting originally called may be transacted. If a time and place for reconvening the meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for reconvening the meeting after adjournment, notice of the time and place for reconvening the meeting shall be given to VOTING MEMBERS in the manner prescribed for regular meetings.

The VOTING MEMBERS present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough VOTING MEMBERS to leave less than a quorum, provided that VOTING MEMBERS or their alternates representing at least twenty-five (25%) percent of the total votes of the PHASE ONE ASSOCIATION remain in attendance, and provided further that any action taken is approved by at least a MAJORITY of the MEMBERS required to constitute a quorum.

Section 8. Voting. The voting rights of the MEMBERS shall be as set forth in the PHASE ONE DECLARATION, and such voting rights provisions are specifically incorporated herein.

Section 9. Proxies. VOTING MEMBERS may vote by proxy.

Section 10. Majority. As used in these PHASE ONE BY-LAWS, the term "MAJORITY" shall mean those votes, OWNERS or other group as the context may indicate totaling more than fifty (50%) percent of the total number.

Section 11. Quorum. Except as otherwise provided in these PHASE ONE BY-LAWS or in the PHASE ONE DECLARATION, the presence in

person or by alternate of the VOTING MEMBERS representing a MAJORITY of the total votes in the PHASE ONE ASSOCIATION shall constitute a quorum at all meetings of the PHASE ONE ASSOCIATION. Any provision in the PHASE ONE DECLARATION concerning quorums is specifically incorporated herein.

Section 12. Conduct of Meetings. The President shall preside over all meetings of the PHASE ONE ASSOCIATION, and the Secretary shall keep the minutes of the meeting and record in a minute book all resolutions adopted at the meeting, as well as a record of all transactions occurring at the meeting.

Section 13. Action Without A Meeting. Any action required by law to be taken at a meeting of the VOTING MEMBERS, or any action which may be taken at a meeting of the VOTING MEMBERS, may be taken without a meeting if written consent setting forth the action so taken is signed by all of the VOTING MEMBERS entitled to vote with respect to the subject matter thereof, and any such consent shall have the same force and effect as a unanimous vote of the VOTING MEMBERS.

Article III

PHASE ONE BOARD OF DIRECTORS: Number, Powers, Meetings

A. Composition and Selection.

Section 1. Governing Body; Composition. The affairs of the PHASE ONE ASSOCIATION shall be governed by a PHASE ONE BOARD OF DIRECTORS, each of whom shall have one (1) vote. Except with respect to directors appointed by the DECLARANT, the directors shall be MEMBERS or spouses of such MEMBERS; provided, however, no PERSON and his or her spouse may serve on the PHASE ONE BOARD at the same time. In the case of an OWNER which is a corporation or partnership, the PERSON designated in writing to the Secretary of the PHASE ONE ASSOCIATION as the representative of such corporation or partnership shall be eligible to serve as a director.

Section 2. Directors During Class "B" Control. The Directors shall be selected by the Class "B" MEMBER acting in its sole discretion and shall serve at the pleasure of the Class "B" MEMBER until the first to occur of the following:

- (a) when all of the property owned by the DECLARANT described on the CONCEPTUAL MASTER PLAN has been conveyed to persons other than the DECLARANT;
- (b) Twenty (20) years from the date of the recording of the PHASE ONE DECLARATION; or
- (c) when, in its discretion, the Class "B" MEMBER so determines.

Section 3. Right To Disapprove Actions. This Section 3 may not be amended without the express, written consent of the Class "B" MEMBER as long as the Class "B" membership exists.

So long as the Class "B" membership exists, the Class "B" MEMBER shall have a right to disapprove actions of the PHASE ONE BOARD and any committee as is more fully provided in this Section. This right shall be exercisable only by the Class "B" MEMBER, its successors and assigns who specifically take this power in a recorded instrument. The right to disapprove shall be as follows:

No action authorized by the PHASE ONE BOARD OF DIRECTORS or any committee shall become effective, nor shall any action, policy or program be implemented until and unless:

- (a) The Class "B" MEMBER shall have been given written notice of all meetings and proposed actions approved at meetings of the PHASE ONE BOARD or any committee thereof by certified mail,

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return receipt requested or by personal delivery at the address it has registered with the Secretary of the PHASE ONE ASSOCIATION, as it may change from time to time, which notice complies as to the PHASE ONE BOARD OF DIRECTORS meetings with Article III, Sections 8, 9 and 10, of these PHASE ONE BY-LAWS and which notice shall, except in the case of the regular meetings held pursuant to the PHASE ONE BY-LAWS, set forth in reasonable particularity the agenda to be followed at said meeting; and

(b) The Class "B" MEMBER shall be given the opportunity at any such meeting to join in or to have its representatives or agents join in discussion from the floor of any prospective action, policy or program to be implemented by the PHASE ONE BOARD, any committee thereof, or the PHASE ONE ASSOCIATION. The Class "B" MEMBER, its representatives or agents shall make its concerns, thoughts and suggestions known to the MEMBERS of the subject committee and/or the PHASE ONE BOARD. The Class "B" MEMBER shall have and is hereby granted a right to disapprove any such action, policy or program authorized by the PHASE ONE BOARD OF DIRECTORS or any committee thereof and to be taken by the PHASE ONE BOARD, such committee, the PHASE ONE ASSOCIATION, or any individual MEMBER of the PHASE ONE ASSOCIATION, if PHASE ONE BOARD, committee or PHASE ONE ASSOCIATION approval is necessary for such action. This right may be exercised by the Class "B" MEMBER, its representatives or agents at any time within ten (10) days following the meeting held pursuant to the terms and provisions hereof. This right to disapprove may be used to block proposed actions.

Section 4. Number of Directors. The number of directors in the PHASE ONE ASSOCIATION shall be not less than three (3) nor more than five (5), as provided in Section 6 below. The initial PHASE ONE BOARD shall consist of five (5) MEMBERS as identified in the PHASE ONE ARTICLES OF INCORPORATION.

Section 5. Nomination of Directors. Except with respect to directors selected by the Class "B" MEMBER, nominations for election to the PHASE ONE BOARD OF DIRECTORS shall be made by a NOMINATING COMMITTEE. The NOMINATING COMMITTEE shall consist of a Chairman, who shall be a MEMBER of the PHASE ONE BOARD OF DIRECTORS, and three (3) or more MEMBERS of the PHASE ONE ASSOCIATION. The NOMINATING COMMITTEE shall be appointed by the PHASE ONE BOARD OF DIRECTORS not less than thirty (30) days prior to each annual meeting of the VOTING MEMBERS to serve a term of one (1) year or until their successors are appointed, and such appointment shall be announced at each such annual meeting. The NOMINATING COMMITTEE shall make as many nominations for election to the PHASE ONE BOARD OF DIRECTORS as it shall in its discretion determine, but in no event less than the number of positions to be filled. Nominations shall also be permitted from the floor. All candidates shall have a reasonable opportunity to communicate their qualifications to the VOTING MEMBERS and to solicit votes.

Section 6. Election and Term of Office. Notwithstanding any other provision contained herein:

(a) Within thirty (30) days after the DECLARANT has sold all of the property owned by the DECLARANT described on the CONCEPTUAL MASTER PLAN, or twenty (20) years from the date of the recording of the PHASE ONE DECLARATION or whenever the Class "B" MEMBER earlier determines, the PHASE ONE ASSOCIATION shall call a special meeting at which VOTING MEMBERS shall elect the three (3) directors.

At the first annual meeting of the membership after the termination of the CLASS "B" CONTROL PERIOD the VOTING MEMBERS shall elect five (5) directors. Two (2) directors shall be elected to serve a term of two (2) years and three (3) directors shall be elected to serve a term of one (1) year. Upon the expiration of the initial term of office of each such director, a successor shall be elected to serve a term of one (1) year. Thereafter, all

directors shall be elected to serve one (1) year term. For the purpose of the election of directors, each VOTING MEMBER shall have one (1) equal vote, and VOTING MEMBERS representing LOTS owned by the Class "B" MEMBER shall be entitled to vote, except as otherwise provided above.

At any election of directors, each VOTING MEMBER shall be entitled to cast one (1) equal vote with respect to each vacancy to be filled. The candidates receiving the largest number of votes shall be elected. The Directors elected by the VOTING MEMBERS shall hold office until their respective successors have been elected by the PHASE ONE ASSOCIATION. Directors may be elected to serve any number of consecutive terms.

Section 7. Removal of Directors and Vacancies. Any director elected by the VOTING MEMBERS may be removed, with or without cause, by the vote of VOTING MEMBERS holding a MAJORITY of the votes entitled to be cast for the election of such director. Any director whose removal is sought shall be given notice prior to any meeting called for that purpose. A director who was elected solely by the votes of VOTING MEMBERS other than the DECLARANT may be removed from office prior to the expiration of his or her term only by the votes of a MAJORITY of VOTING MEMBERS other than the DECLARANT. Upon removal of a director, a successor shall then and there be elected by the VOTING MEMBERS entitled to elect the director so removed to fill the vacancy for the remainder of the term of such director.

Any director elected by the VOTING MEMBERS who has three (3) consecutive unexcused absences from PHASE ONE BOARD meetings or who is delinquent in the payment of any assessment or other charge due the PHASE ONE ASSOCIATION for more than thirty (30) days may be removed by a MAJORITY of the directors present at a regular or special meeting at which a quorum is present, and a successor may be appointed by the PHASE ONE BOARD to fill the vacancy for the remainder of the term. In the event of the death, disability or resignation of a director, a vacancy may be declared by the PHASE ONE BOARD, and it may appoint a successor. Any director appointed by the PHASE ONE BOARD shall serve for the remainder of the term of the director who vacated the position.

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B. Meetings.

Section 8. Organizational Meetings. The first meeting of the PHASE ONE BOARD OF DIRECTORS following each annual meeting of the membership shall be held within ten (10) days thereafter at such time and place as shall be fixed by the PHASE ONE BOARD.

Section 9. Regular Meetings. Regular meetings of the PHASE ONE 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, but at least four (4) such meetings shall be held during each fiscal year with at least one (1) per quarter. Notice of the time and place of the meeting shall be communicated to directors not less than four (4) days prior to the meeting; provided, however, notice of a meeting need not be given to any director who has signed a waiver of notice or a written consent to holding of the meeting.

Section 10. Special Meetings. Special meetings of the PHASE ONE BOARD OF DIRECTORS shall be held when called by written notice signed by the President of the PHASE ONE ASSOCIATION or by any two (2) directors. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be given to each director by one of the following methods: (a) by personal delivery; (b) written notice by first class mail, postage prepaid; (c) by telephone communication, either directly to the director or to a PERSON at the director's office or home who would reasonably be expected to communicate such notice promptly to the director; or (d) by

telegram, charges prepaid. All such notices shall be given at the director's telephone number or sent to the director's address as shown on the records of the PHASE ONE ASSOCIATION. Notices sent by first class mail shall be deposited into a United States mailbox at least four (4) days before the time set for the meeting. Notices given by personal delivery, telephone or telegraph shall be delivered, telephoned or given to the telegraph company at least seventy-two (72) hours before the time set for the meeting.

Section 11. Waiver of Notice. The transactions of any meeting of the PHASE ONE BOARD OF DIRECTORS, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice if (a) a quorum is present, and (b) either before or after the meeting each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

Section 12. Quorum of PHASE ONE BOARD OF DIRECTORS. At all meetings of the PHASE ONE BOARD OF DIRECTORS, a MAJORITY of the directors shall constitute a quorum for the transaction of business, and the votes of a MAJORITY of the directors present at a meeting at which a quorum is present shall constitute the decision of the PHASE ONE BOARD OF DIRECTORS. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, if any action taken is approved by at least a MAJORITY of the required quorum for that meeting. If any meeting of the PHASE ONE BOARD cannot be held because a quorum is not present, a MAJORITY of the directors who are present at such meeting may adjourn the meeting to a time not less than five (5) nor more than thirty (30) days from the date the original meeting was called. At the reconvened meeting, if a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice.

Section 13. Compensation. No director shall receive any compensation from the PHASE ONE ASSOCIATION for acting as such unless approved by VOTING MEMBERS representing a MAJORITY of the total vote of the PHASE ONE ASSOCIATION at a regular or special meeting of the PHASE ONE ASSOCIATION; provided any director may be reimbursed for expenses incurred on behalf of the PHASE ONE ASSOCIATION upon approval of a MAJORITY of the other directors.

Section 14. Conduct of Meetings. The President shall preside over all meetings of the PHASE ONE BOARD OF DIRECTORS, and the Secretary shall keep a minute book of meetings of the PHASE ONE BOARD OF DIRECTORS, recording therein all resolutions adopted by the PHASE ONE BOARD OF DIRECTORS and all transactions and proceedings occurring at such meetings. Meetings may be conducted by telephone and shall be considered as any other meeting, provided all directors are able through telephone connection to hear and to be heard.

Section 15. Open Meetings. Subject to the provisions of **Section 16** of this Article, all meetings of the PHASE ONE BOARD shall be open to all VOTING MEMBERS, but VOTING MEMBERS other than directors may not participate in any discussion or deliberation unless permission to speak is requested on his or her behalf by a director. In such case, the President may limit the time any VOTING MEMBER may speak.

Section 16. Action Without a Formal Meeting. Any action to be taken at a meeting of the directors or any action that may be taken at a meeting of the directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors, and such consent shall have the same force and effect as a unanimous vote.

Proviso. So long as the Class "B" Membership exists, no meetings of the MEMBERS or the BOARD OF DIRECTORS or any committee shall take place unless called by the Class "B" MEMBER.

C. Powers and Duties.

Section 17. Powers. The PHASE ONE BOARD OF DIRECTORS shall be responsible for the affairs of the PHASE ONE ASSOCIATION and shall have all of the powers and duties necessary for the administration of the PHASE ONE ASSOCIATION'S affairs and, as provided by law, may do all acts and things as are not by the PHASE ONE DECLARATION, ARTICLES or these PHASE ONE BY-LAWS directed to be done and exercised exclusively by the VOTING MEMBERS or the membership generally.

The PHASE ONE BOARD OF DIRECTORS may delegate to one (1) or more of its MEMBERS the authority to act on behalf of the PHASE ONE BOARD OF DIRECTORS on all matters relating to the duties of the managing agent or manager, if any, which might arise between meetings of the PHASE ONE BOARD OF DIRECTORS.

In addition to the duties imposed by these PHASE ONE BY-LAWS or by any resolution of the PHASE ONE ASSOCIATION that may hereafter be adopted, the PHASE ONE BOARD OF DIRECTORS may delegate to one (1) or more of its MEMBERS the power to and shall be responsible for the following, in way of explanation, but not limitation:

(a) preparation and adoption of annual budgets in which there shall be established the contribution of each OWNER to the COMMON EXPENSES;

(b) making assessments to defray the COMMON EXPENSES, establishing the means and methods of collecting such assessments, and establishing the period of the installment payments of the annual assessment; provided, unless otherwise determined by the PHASE ONE BOARD OF DIRECTORS, the annual assessment for each LOT'S proportionate share of the COMMON EXPENSES shall be payable in equal monthly installments, each such installment to be due and payable in advance on the first day of each month for said month;

(c) providing for the operation, care, upkeep and maintenance of all of the COMMON AREA;

(d) designating, hiring and dismissing the personnel necessary for the maintenance, operation, repair and replacement of the PHASE ONE ASSOCIATION, its property and the COMMON AREA and, where appropriate, providing for the compensation of such personnel and for the purchase of equipment, supplies and materials to be used by such personnel in the performance of their duties;

(e) collecting the assessments, depositing the proceeds thereof in a bank depository which it shall approve, and using the proceeds to administer the PHASE ONE ASSOCIATION; provided, any reserve fund may be deposited, in the directors' best business judgment, in depositories other than banks;

(f) making and amending rules and regulations;

(g) opening of bank accounts on behalf of the PHASE ONE ASSOCIATION and designating the signatories required;

(h) making or contracting for the making of repairs, additions and improvements to or alterations of the COMMON AREA in accordance with the other provisions of the PHASE ONE DECLARATION and these PHASE ONE BY-LAWS after damage or destruction by fire or other casualty;

(i) enforcing by legal means the provisions of the PHASE ONE DECLARATION, these PHASE ONE BY-LAWS and the rules and

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regulations adopted by it and bringing any proceedings which may be instituted on behalf of or against the OWNERS concerning the PHASE ONE ASSOCIATION;

(j) obtaining and carrying insurance against casualties and liabilities, as provided in the PHASE ONE DECLARATION, and paying the premium cost thereof;

(k) paying the cost of all services rendered to the PHASE ONE ASSOCIATION or its MEMBERS and not chargeable directly to specific OWNERS;

(l) keeping books with detailed accounts of the receipts and expenditures affecting the PHASE ONE ASSOCIATION and its administration, specifying the maintenance and repair expenses and any other expenses incurred;

(m) making available to any prospective purchaser of a LOT, any OWNER of a LOT, any first MORTGAGEE and the holders, insurers and guarantors of a first Mortgage on any LOT, current copies of the PHASE ONE DECLARATION, the PHASE ONE ARTICLES OF INCORPORATION, the PHASE ONE BY-LAWS, rules governing the LOT and all other books, records and financial statements of the PHASE ONE ASSOCIATION; and

(n) permitting utility suppliers to use portions of the COMMON AREA reasonably necessary to the ongoing development or operation of the PROPERTIES.

Section 18. Management Agent. The PHASE ONE BOARD OF DIRECTORS may employ for the PHASE ONE ASSOCIATION a professional management agent or agents at a compensation established by the PHASE ONE BOARD OF DIRECTORS to perform such duties and services as the PHASE ONE BOARD OF DIRECTORS shall authorize. The PHASE ONE BOARD OF DIRECTORS may delegate to the managing agent or manager, subject to the PHASE ONE BOARD'S supervision, all of the powers granted to the PHASE ONE BOARD OF DIRECTORS by these PHASE ONE BY-LAWS, other than the powers set forth in subparagraphs (a), (b), (f), (g) and (i) of Section 17 of this Article. The DECLARANT, or an affiliate of the DECLARANT, may be employed as managing agent or manager.

Section 19. Accounts and Reports. The following management standards of performance will be followed unless the PHASE ONE BOARD by resolution specifically determines otherwise:

(a) accrual accounting, as defined by generally accepted accounting principles, shall be employed;

(b) accounting and controls should conform to generally accepted accounting principles;

(c) cash accounts of the PHASE ONE ASSOCIATION shall not be commingled with any other accounts;

(d) no remuneration shall be accepted by the managing agent from vendors, independent contractors or others providing goods or services to the PHASE ONE ASSOCIATION, whether in the form of commissions, finder's fees, service fees, prizes, gifts or otherwise; any thing of value received shall benefit the PHASE ONE ASSOCIATION; provided, nothing herein shall prohibit the managing agent from earning commissions for services performed by the managing agent in leasing LOTS on behalf of the OWNERS of such LOTS;

(e) any financial or other interest which the managing agent may have in any firm providing goods or services to the PHASE ONE ASSOCIATION shall be disclosed promptly to the PHASE ONE BOARD OF DIRECTORS;

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(f) commencing at the end of the month in which the first LOT is sold and closed, financial reports shall be prepared for the PHASE ONE ASSOCIATION at least quarterly containing:

(i) an income statement reflecting all income and expense activity for the preceding period on an accrual basis;

(ii) a statement reflecting all cash receipts and disbursements for the preceding period;

(iii) a variance report reflecting the status of all accounts in an "actual" versus "approved" budget format;

(iv) a balance sheet as of the last day of the preceding period; and

(v) a delinquency report listing all OWNERS who are delinquent in paying the installments of assessments at the time of the report and describing the status of any action to collect such installments which remain delinquent (A monthly installment of the assessment shall be considered to be delinquent on the fifteenth (15th) day of each month unless otherwise determined by the PHASE ONE BOARD OF DIRECTORS); and

(g) an annual report consisting of at least the following shall be distributed to all VOTING MEMBERS within one hundred twenty (120) days after the close of the fiscal year: (1) a balance sheet; (2) an operating (income) statement; and (3) a statement of changes in financial position for the fiscal year. The annual report referred to above shall be prepared on an audited or reviewed basis, as determined by the PHASE ONE BOARD, by an independent public accountant.

Section 20. Borrowing. The PHASE ONE BOARD OF DIRECTORS shall have the power to borrow money for the purpose of maintenance, repair or restoration of the COMMON AREA without the approval of the VOTING MEMBERS of the PHASE ONE ASSOCIATION. The PHASE ONE BOARD shall also have the power to borrow money for other purposes; provided, the PHASE ONE BOARD shall obtain VOTING MEMBER approval in the same manner provided in the PHASE ONE DECLARATION for special assessments in the event that the proposed borrowing is for the purpose of modifying, improving or adding amenities and the total amount of such borrowing exceeds or would exceed five (5%) percent of the budgeted gross expenses of the PHASE ONE ASSOCIATION for that fiscal year.

Section 21. Rights of the PHASE ONE ASSOCIATION. With respect to the COMMON AREA, and in accordance with the PHASE ONE ARTICLES OF INCORPORATION and the PHASE ONE DECLARATION, the PHASE ONE ASSOCIATION shall have the right to contract with any person for the performance of various duties and functions. Without limiting the foregoing, this right shall entitle the PHASE ONE ASSOCIATION to enter into common management, operational or other agreements with trusts, condominiums, cooperatives and other owners or residents associations, both within and without the PROPERTIES. Such agreements shall require the consent of two-thirds (2/3) of all Directors of the PHASE ONE ASSOCIATION.

The PHASE ONE ASSOCIATION shall not be bound, either directly or indirectly, by any contract, lease or other agreement (including any management contract) executed during the period of DECLARANT control of the PHASE ONE BOARD OF DIRECTORS unless such contract, lease or other agreement contains a right of termination exercisable by either party without penalty at any time, with or without cause, upon not more than ninety (90) days notice to the other party.

Section 22. Enforcement. The PHASE ONE BOARD shall have the power to impose reasonable fines, which shall constitute a lien upon the property of the violating OWNER, and to suspend an OWNER'S

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right to vote or to use the COMMON AREA for violation of any duty imposed under the PHASE ONE DECLARATION, these PHASE ONE BY-LAWS or any rules and regulations duly adopted hereunder; provided, however, nothing herein shall authorize the PHASE ONE ASSOCIATION or the PHASE ONE BOARD OF DIRECTORS to limit ingress and egress to or from a LOT or to suspend an OWNER'S right to vote due to nonpayment of assessments. In the event that any occupant of a LOT violates the PHASE ONE DECLARATION, PHASE ONE BY-LAWS or a rule or regulation and a fine is imposed, the fine shall first be assessed against the occupant; provided, however, if the fine is not paid by the occupant within the time period set by the PHASE ONE BOARD, the OWNER shall pay the fine upon notice from the PHASE ONE ASSOCIATION. The failure of the PHASE ONE BOARD to enforce any provision of the PHASE ONE DECLARATION, PHASE ONE BY-LAWS or any rule or regulation shall not be deemed a waiver of the right of the PHASE ONE BOARD to do so thereafter.

(a) Notice. Prior to imposition of any sanction hereunder, the PHASE ONE BOARD or its delegate shall serve the alleged violator with written notice describing (i) the nature of the alleged violation, (ii) the proposed sanction to be imposed, (iii) a period of not less than ten (10) days within which the alleged violator may present a written request to the COVENANTS COMMITTEE, if any, or PHASE ONE BOARD OF DIRECTORS for a hearing; and (iv) a statement that the proposed sanction shall be imposed as contained in the notice unless a challenge is begun within ten (10) days of the notice. If a timely challenge is not made, the sanction stated in the notice shall be imposed.

(b) Hearing. If a hearing is requested in a timely manner, the hearing shall be held in executive session affording the OWNER a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of proper notice shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice, together with a statement of the date and manner of delivery, is entered by the officer, Director or agent who delivered such notice. The notice requirement shall be deemed satisfied if the alleged violator appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed. The PHASE ONE BOARD OF DIRECTORS or the COVENANTS COMMITTEE may, but shall not be obligated to, suspend any proposed sanction if the violation is cured within the ten (10) day period. Such suspension shall not constitute a waiver of the right to sanction future violations of the same or other provisions and rules by any PERSON.

(c) Appeal. Following a hearing before the COVENANTS COMMITTEE, the violator shall have the right to appeal the decision to the PHASE ONE BOARD OF DIRECTORS. To perfect this right, a written notice of appeal must be received by the manager, President or Secretary of the PHASE ONE ASSOCIATION within thirty (30) days after the hearing date.

(d) Additional Enforcement Rights. Notwithstanding anything to the contrary herein contained, the PHASE ONE ASSOCIATION, acting through the PHASE ONE BOARD OF DIRECTORS, may elect to enforce any provision of the PHASE ONE DECLARATION, these PHASE ONE BY-LAWS or the rules and regulations of the PHASE ONE ASSOCIATION by self-help (specifically including, but not limited to, the towing of vehicles that are in violation of parking rules and regulations) or by suit at law or in equity to enjoin any violation or to recover monetary damages or both without the necessity of compliance with the procedure set forth above. In any such action, to the maximum extent permissible, the OWNER or occupant responsible for the violation of which abatement is sought shall pay all costs, including reasonable attorney's fees actually incurred.

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Article IV
Officers

Section 1. Officers. The officers of the PHASE ONE ASSOCIATION shall be a President, Vice President, Secretary and Treasurer, to be elected from among the MEMBERS of the PHASE ONE BOARD. The PHASE ONE BOARD OF DIRECTORS may appoint such other officers, including one or more Assistant Secretaries and one or more Assistant Treasurers, as it shall deem desirable, such officers to have the authority and perform the duties prescribed from time to time by the PHASE ONE BOARD OF DIRECTORS. Any two (2) or more offices may be held by the same PERSON, except the offices of President and Secretary.

Section 2. Election, Term of Office and Vacancies. The officers of the PHASE ONE ASSOCIATION shall be elected annually by the PHASE ONE BOARD OF DIRECTORS at the first meeting of the PHASE ONE BOARD OF DIRECTORS following each annual meeting of the VOTING MEMBERS, as herein set forth in Article III. A vacancy in any office arising because of death, resignation, removal or otherwise may be filled by the PHASE ONE BOARD OF DIRECTORS for the unexpired portion of the term.

Section 3. Removal. Any officer may be removed by the PHASE ONE BOARD OF DIRECTORS whenever in its judgment the best interests of the PHASE ONE ASSOCIATION will be served thereby.

Section 4. Powers and Duties. The officers of the PHASE ONE ASSOCIATION shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as may from time to time specifically be conferred or imposed by the PHASE ONE BOARD OF DIRECTORS. The President shall be the chief executive officer of the PHASE ONE ASSOCIATION. The Treasurer shall have primary responsibility for the preparation of the budget as provided for in the PHASE ONE DECLARATION and may delegate all or part of the preparation and notification duties to a finance committee, management agent or both.

Section 5. Resignation. Any officer may resign at any time by giving written notice to the PHASE ONE BOARD OF DIRECTORS, the President or the Secretary. Such resignation shall take effect on the date of the 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. Agreements, Contracts, Deeds, Leases, Checks, Etc. All agreements, contracts, deeds, leases, checks and other instruments of the PHASE ONE ASSOCIATION shall be executed by at least two (2) officers or by such other PERSON or PERSONS as may be designated by resolution of the PHASE ONE BOARD OF DIRECTORS.

Article V
Committees

Section 1. General. Committees are hereby authorized to perform such tasks and to serve for such periods as may be designated by a resolution adopted by a MAJORITY of the Directors present at a meeting at which a quorum is present. Each committee shall operate in accordance with the terms of the resolution of the PHASE ONE BOARD OF DIRECTORS designating the committee or with rules adopted by the PHASE ONE BOARD OF DIRECTORS.

Section 2. Covenants Committee. In addition to any other committees which may be established by the PHASE ONE BOARD pursuant to Section 1 of this Article, the PHASE ONE BOARD OF DIRECTORS may appoint a COVENANTS COMMITTEE consisting of at least five (5) and no more than seven (7) MEMBERS. Acting in accordance with the provisions of the PHASE ONE DECLARATION, these PHASE ONE BY-LAWS and resolutions the PHASE ONE BOARD may adopt, the COVENANTS

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COMMITTEE, if established, shall be the hearing tribunal of the PHASE ONE ASSOCIATION and shall conduct all hearings held pursuant to Article III, Section 22 of these PHASE ONE BY-LAWS.

Section 3. Neighborhood Representative. The MEMBERS of the PHASE ONE ASSOCIATION shall elect a senior elected officer who shall serve as the VOTING MEMBER of the NEIGHBORHOOD, as defined in the MASTER DECLARATION, and shall cast all votes attributable to LOTS in the PHASE ONE PROPERTY on all MASTER ASSOCIATION matters requiring membership vote. The VOTING MEMBER may cast all such votes as he/she, in his/her discretion, deems appropriate.

Article VI
Miscellaneous

Section 1. Fiscal Year. The fiscal year of the PHASE ONE ASSOCIATION shall be set by resolution of the PHASE ONE BOARD OF DIRECTORS.

Section 2. Parliamentary Rules. Except as may be modified by PHASE ONE BOARD resolution, Robert's Rules of Order (current edition) shall govern the conduct of PHASE ONE ASSOCIATION proceedings when not in conflict with Alabama Law, the PHASE ONE ARTICLES OF INCORPORATION, the PHASE ONE DECLARATION or these PHASE ONE BY-LAWS.

Section 3. Conflicts. If there are conflicts between the provisions of Alabama Law, the PHASE ONE ARTICLES OF INCORPORATION, the PHASE ONE DECLARATION and these PHASE ONE BY-LAWS, the provisions of Alabama Law, the PHASE ONE DECLARATION, the PHASE ONE ARTICLES OF INCORPORATION and the PHASE ONE BY-LAWS (in that order) shall prevail. If there are conflicts between the provisions of the PHASE ONE DECLARATION and the provisions of the MASTER DECLARATION or conflicts in the exercise of any powers between the MASTER ASSOCIATION and the PHASE ONE ASSOCIATION, then the provisions of the MASTER DECLARATION and the powers granted to the MASTER ASSOCIATION shall prevail and be controlling.

Section 4. Books and Records.

(a) Inspection by MEMBERS and MORTGAGEES. The PHASE ONE DECLARATION and PHASE ONE BY-LAWS, membership register, books of account and minutes of meetings of the MEMBERS, the PHASE ONE BOARD and committees shall be made available for inspection and copying by any MORTGAGEE, MEMBER of the PHASE ONE ASSOCIATION, or by his or her duly appointed representative at any reasonable time and for a purpose reasonably related to his or her interest as a MEMBER at the office of the PHASE ONE ASSOCIATION or at such other place within the PROPERTIES as the PHASE ONE BOARD shall prescribe.

(b) Rules for Inspection. The PHASE ONE BOARD shall establish reasonable rules with respect to:

- (i) notice to be given to the custodian of the records;
- (ii) hours and days of the week when such an inspection may be made; and
- (iii) payment of the cost of reproducing copies of documents requested.

(c) Inspection by Directors. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the PHASE ONE ASSOCIATION and the physical properties owned or controlled by the PHASE ONE ASSOCIATION. The right of inspection by a Director includes the right to make extracts and a copy of relevant documents at the expense of the PHASE ONE ASSOCIATION.

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Section 5. Notices. Unless otherwise provided in these PHASE ONE BY-LAWS, all notices, demands, bills, statements or other communications under these PHASE ONE BY-LAWS shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by United States Mail, first class postage prepaid:

(a) if to a MEMBER or VOTING MEMBER, at the address which the MEMBER or VOTING MEMBER has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the LOT of such MEMBER or VOTING MEMBER; or

(b) if to the PHASE ONE ASSOCIATION, the PHASE ONE BOARD OF DIRECTORS or the managing agent, at the principal office of the PHASE ONE ASSOCIATION or the managing agent, if any, or at such other address as shall be designated by notice in writing to the MEMBERS pursuant to this Section.

Section 6. Amendment. The DECLARANT may unilaterally amend these PHASE ONE BY-LAWS so long as it still owns property described on the CONCEPTUAL MASTER PLAN. Thereafter and otherwise, these PHASE ONE BY-LAWS may be amended only by the affirmative vote (in person or by alternate) or written consent, or any combination thereof, of VOTING MEMBERS representing seventy-five (75%) percent of the total votes of the PHASE ONE ASSOCIATION, including seventy-five (75%) percent of the votes held by MEMBERS other than the DECLARANT. However, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause. No amendment shall be effective until recorded in the public records of Baldwin County, Alabama.

No amendment may remove, revoke or modify any right or privilege of DECLARANT without the written consent of DECLARANT or the assignee of such right or privilege. No amendment may impair the validity or priority of the lien of any Mortgage held by a MORTGAGEE or impair the rights granted to MORTGAGERS herein without the prior written consent of such MORTGAGERS.

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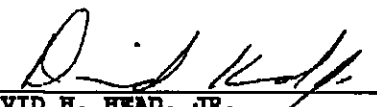
CERTIFICATION

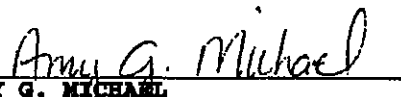
I, the undersigned, do hereby certify:

That I am the duly elected and acting Secretary of THE PENINSULA PROPERTY OWNER'S ASSOCIATION, PHASE ONE, INC., an Alabama Corporation;

That the foregoing PHASE ONE BY-LAWS constitute the original PHASE ONE BY-LAWS of said PHASE ONE ASSOCIATION, as duly adopted at a meeting of the PHASE ONE BOARD OF DIRECTORS thereof held on the 26th day of April, 1995.

IN WITNESS WHEREOF, we have hereunto subscribed our names and affixed the seal of said PHASE ONE ASSOCIATION this 26th day of April, 1995.


DAVID H. HEAD, JR.
Secretary


AMY G. MICHAEL
President

Pod/Pan/Phase.01/Bylaws; 24-1103

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BALDWIN COUNTY
CLERK'S OFFICE
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