

**BY-LAWS
OF THE
WATERSTONE ESTATES HOMEOWNERS ASSOCIATION, INC.**

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BY-LAWS
OF
WATERSTONE ESTATES HOMEOWNERS ASSOCIATION, INC.

Article I

Name, Principal Office, and Definitions

A. Name. The name of the Association shall be Waterstone Estates Homeowners Association, Inc. (hereinafter sometimes referred to as the "Association").

B. Principal Office. The principal office of the Association shall be located in Harris County, Texas.

C. Definitions. The words used in these By-Laws which are not defined herein shall have the same meanings as set forth in that certain Declaration of Covenants, Conditions and Restrictions for Waterstone Estates recorded in the Official Records of Harris County, Texas (said Declaration, as amended, renewed, or extended from time to time, is hereinafter sometimes referred to as the "Declaration").

Article II

Membership, Meetings, Quorum, Voting, Proxies

A. Membership. The Association shall initially have two (2) classes of membership, Class "A" and Class "B", as more fully set forth in the Declaration and specifically incorporated herein by reference.

B. Place of Meetings. Meetings of the Members of the Association shall be held at the principal office of the Association or at such other suitable place as may be designated by the Board of Directors.

C. Annual Meetings. The first meeting of the Members of the Association, whether a regular or special meeting, shall be held within one (1) year after the date on which the first residence in the Properties is conveyed to a home owner. Subsequent regular annual meetings shall be set by the Board.

D. 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 Members of the Association if so directed by resolution of a majority of a quorum of the Board of Directors or upon a petition signed by Members representing at least twenty (20%) of

the total Class "A" votes of the Association or the Declarant. The notice of any special meeting shall state the date, time, and place of such meeting and the purpose thereof.

E. Notice of Meetings. Written or printed notice stating the place, day, and hour of any meeting of the Members shall be delivered, either personally or by mail, to each Member entitled to vote at such meeting, not less than ten (10) nor more than sixty (60) 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. Such notice must contain a description of the topics or issues to be discussed.

In the case of a special meeting or when required by statute or these 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 Members at his or her address as it appears on the records of the Association, with postage thereon prepaid.

F. Waiver of Notice. Waiver of notice of a meeting shall be deemed the equivalent of proper notice. Any Member may, in writing, waive notice of any meeting, either before or after such meeting. Attendance at a meeting by a Member shall be deemed waiver by such Member of notice of the time, date, and place thereof, unless such 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.

G. Adjournment of Meetings. If any meeting of the Members cannot be held because a quorum is not present, a majority of the 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 sixty (60) days from the time the original meeting was called. At the reconvened meeting, if a quorum is present, any business that 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 the Members in the manner prescribed for regular meetings.

H. Voting and Proxies. The voting rights of the Members shall be as set forth in the Declaration, and such voting rights provisions are specifically incorporated herein. Members 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 or her Lot.

I. Majority. As used in these By-Laws, the term "majority" shall mean those votes, owners, or other groups as the context may indicate totaling more than fifty (50%) percent of the total eligible number.

J. Quorum. Except as otherwise provided in these By-Laws or in the Declaration, the presence in person or by proxy of Members entitled to cast ten percent (10%) of the votes of each class of the Members shall constitute a quorum at all meetings of the Members. If a quorum is not present at a meeting and the meeting is reconvened to a later date as specified in Section II(G) above, the requirement for a quorum at the reconvened meeting shall be reduced to 50% of the requirement for the meeting at which a quorum was not present.

K. Conduct of Meetings. The President shall preside over all meetings of the Association, and the Secretary shall keep the minutes of the meeting and record in a minute book all resolutions adopted at the meeting and all transactions occurring at the meeting.

L. Action Without a Meeting. Any action required by law to be taken at a meeting of the Association or any action that may be taken at a meeting of the Association, may be taken without a meeting if written consent setting forth the action so taken is signed by all of the 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 Members.

Article III

Board of Directors: Number, Powers, Meetings

A. Composition and Selection.

Section 1. Governing Body: Composition. The affairs of the Association shall be governed by a Board of Directors, each of whom shall have one (1) vote. Directors are not required to be Members.

Section 2. Number of Directors. The number of directors in the Association shall be not less than three (3). The initial Board shall consist of three (3) members as identified in the Certificate of Formation. Upon the termination of the Class "B" Membership, the Board shall increase in size to five (5) members.

Section 3. Appointment and Election of Directors.

(a) During the period prior to the termination of the Class "B" Membership (the "Class B Control Period"), all members of the Board of Directors shall be appointed by the Declarant.

(b) At the first annual meeting of the Members after the expiration of the Class B Control Period, the Members shall elect five (5) directors, two to serve a one-year term, two to serve a two-year term and one to serve a three-year term. At each annual meeting thereafter, the Members shall elect the number of directors whose terms are expiring to serve a term of two (2) years.

Section 4. Nomination of Directors. After the expiration of the Class B Control Period, nominations for election to the Board of Directors may be made by a Nominating Committee. If created, the Nominating Committee shall consist of a Chairman, who shall be a member of the Board of Directors, and three (3) or more Members of the Association. The Nominating Committee shall be appointed by the Board of Directors not less than thirty (30) days prior to each annual meeting of the 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 Board of Directors as it shall in its discretion determine but in no event less than the number of positions to be filled. All candidates shall have a reasonable opportunity to communicate their qualifications to the Members and to solicit votes.

Section 5. Removal of Directors and Vacancies. Any director may be removed, with or without cause, by the Declarant during the Class B Control Period and thereafter by the Members at a meeting called for such purpose. Any director whose removal is sought by vote of the Members after the expiration of the Class B Control Period shall be given notice prior to any meeting called for that purpose. Upon removal of a director during the Class B Control Period, a successor shall be designated by the Declarant. Thereafter, the successor to a removed director shall be designated by the remaining directors. The replacement director shall serve for the remainder of the term of the removed director.

Any director who has three (3) consecutive unexcused absences from Board meetings or who is delinquent in the payment of any assessment or other charge due the 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.

In the event of the death, disability, removal or resignation of a director during the Class B Control Period, the Declarant shall appoint a successor. In such event thereafter, the remaining members of the Board shall appoint a successor.

Section 6. Right To Disapprove Actions. This Section 6 may not be amended without the express, written consent of the Declarant as long as the Class "B" Membership exists.

So long as the Class "B" Membership exists, the Declarant shall have a right to disapprove actions of the Board and any committee, as is more fully provided in this Section. This right shall be exercisable only by the Declarant, 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 Board of Directors or any committee shall become effective, nor shall any action, policy, or program be implemented until and unless:

(a) The Declarant shall have been given written notice of all meetings and proposed actions approved at meetings of the Board or any committee thereof by certified mail, return receipt requested, or by personal delivery at the address the Declarant has registered with the Secretary of the Association, as it may change from time to time; and

(b) The Declarant 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 Board, any committee thereof, or the Association. The Declarant, its representative or agents shall make its concerns, thoughts, and suggestions known to the members of the subject committee and/or the Board. The Declarant shall have and is hereby granted a right to disapprove any such action, policy, or program authorized by the Board of Directors or any committee thereof and to be taken by the Board, such committee, the Association, or any individual member of the Association, if Board, Committee, or Association approval is necessary for such action. This right may be exercised by the Declarant, its representatives, or agents at any time within ten (10) days following the meeting held pursuant to the terms and provisions hereof. The Declarant shall not use its right to disapprove to reduce the level of services that the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

B. Meetings.

Section 1. Organizational Meetings. The first meeting of the Board of Directors following each annual meeting of the Members shall be held within ten (10) days thereafter at such time and place as shall be fixed by the Board.

Section 2. Regular Meetings. 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 the time and place of the meeting shall be communicated to the 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 3. Special Meetings. Special meetings of the Board of Directors shall be held when called by written notice signed by the President of the Association or by any two (2) directors. The notice shall specify the time and place of the meeting. 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 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 4. Waiver of Notice. The transaction of any meeting of the 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 5. Quorum of Board of Directors. At all meetings of the 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 Board of Directors. If any meeting of the 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 that might have been transacted at the meeting originally called may be transacted without further notice.

Section 6. Compensation. No director shall receive any compensation from the Association for acting as such; provided, however, that a director may be reimbursed for

expenses incurred on behalf of the Association upon approval of a majority of the other directors.

Section 7. Conduct of Meetings. The President shall preside over all meetings of the Board of Directors, and the Secretary shall keep a minute book of meetings of the Board of Directors, recording therein all resolutions adopted by the Board of Directors and all transactions and proceedings occurring at such meetings.

Section 8. Open Meetings. Subject to the provisions of Section B(9) of this Article, all meetings of the Board shall be open to all Members, but 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 Member may speak. Notwithstanding the above, the President may adjourn any meeting of the Board of Directors and reconvene in executive session, excluding Members, to discuss matters of a sensitive nature, such as pending or threatened litigation, personnel matters, etc.

Section 9. 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 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.

C. Powers and Duties.

Section 1. Powers. The Board of Directors shall be responsible for the affairs of the Association and shall have all of the powers and duties necessary for the administration of the Association's affairs.

The Board of Directors shall delegate to one or more of its members the authority to act on behalf of the Board of Directors on all matters relating to the duties of the managing agent or manager, if any, that might arise between meetings of the Board of Directors.

In addition to the duties imposed by these By-Laws or by any resolution of the Association that may hereafter be adopted, the Board of Directors shall have the power to establish policies relating to, and shall be responsible for performing or causing to be performed, the following, in way of explanation, but not limitation:

- (a) preparing and adopting of annual budgets;

(b) making assessments, establishing the means and methods of collecting such assessments, and establishing the payment schedule for assessments if other than annual;

(c) providing for the operation, care, upkeep and maintenance of all Common Area, if any;

(d) designating, hiring, and dismissing the personnel necessary for the operation of the Association and the maintenance, operation, repair, and replacement of its property and the Common Area, if any, 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 that it shall approve, and using the proceeds to operate the 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 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, if any, in accordance with the other provisions of the Declaration and these By-Laws after damage or destruction by fire or other casualty;

(i) enforcing by legal means the provisions of the Declaration, these By-Laws, and the rules and regulations adopted by the Association and bringing any proceedings that may be instituted on behalf of or against the Owners concerning the Association;

(j) obtaining and carrying insurance against casualties and liabilities and paying the premium cost thereof;

(k) paying the cost of all services rendered to the Association or its Members and not chargeable directly to specific Owners;

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

(m) maintaining a membership register reflecting, in alphabetical order, the names, property addresses and mailing addresses of all Members;

(n) making available to any prospective purchaser, any Owner, any mortgagee, and the holders, insurers, and guarantors of a mortgage, current copies of the Declaration, the Certificate of Formation, the By-Laws, rules governing the Properties and all other books, records, and financial statements of the Association; and

(o) permitting utility suppliers to use portions of the Common Area, if any, reasonably necessary to the ongoing development or operation of the Properties.

Section 2. Management. The Board of Directors may employ for the Association a professional management agent or agents at a compensation established by the Board of Directors to perform such duties and services as the Board of Directors shall authorize. The Board of Directors may delegate to the managing agent or manager, subject to the Board's supervision, all of the powers granted to the Board of Directors by these By-Laws to the extent permitted by law.

Section 3. Accounts and Reports. The following management standards of performance will be followed unless the 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 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 Association, whether in the form of commissions, finder's fees, service fees, prizes, gifts, or otherwise; anything of value received shall benefit the Association.

(e) Any financial or other interest that the managing agent may have in any firm providing goods or services to the Association shall be disclosed promptly to the Board of Directors.

(f) Commencing at the end of the month in which the first Lot is sold and closed, financial reports shall be prepared for the 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 any assessments at the time of the report and describing the status of any action to collect such assessments that remain delinquent.

Section 4. Borrowing. The Board of Directors shall have the power to borrow money for any purpose without the approval of the Members of the Association except as may otherwise be specified in the Certificate of Formation or the Declaration.

Section 5. Rights of the Association. With respect to the Common Area, if any, and in accordance with the Certificate of Formation and the Declaration, the Association shall have the right to contract with any person or entity for the performance of various duties and functions. Without limiting the foregoing, this right shall entitle the Association to enter into common management, operational, or other agreements with trusts, condominiums, cooperatives, or other property owner or resident associations, both within and without the Properties. Such agreements shall require the consent of a majority of the total number of directors of the Association.

Section 6. Enforcement. The 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 right to vote or any person's right to use the Common Area, if any, for violation of any duty imposed under the Declaration, these By-Laws, or any rules and regulations duly adopted by the Association; provided, however, nothing herein shall authorize the Association or the Board of Directors to limit ingress and egress to or from a Lot. In addition, the Association shall be entitled to suspend any services provided by the Association to a Lot in the event that the Owner of such Lot is more than thirty (30) days delinquent in paying any assessment due to the Association. In the event that an occupant, guest or invitee of a Lot violates the Declaration, 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 Board, the Owner shall pay the fine upon notice from the Association.

The failure of the Board to enforce any provision of the Declaration, By-Laws, or any rule or regulation shall not be deemed a waiver of the right of the Board to do so thereafter.

Notwithstanding anything to the contrary herein contained, the Association, acting through the Board of Directors, may elect to enforce any provision of the Declaration, these By-Laws, or the rules and regulations of the 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 attorneys' fees actually incurred.

Article IV

Officers

A. Officers. The officers of the Association shall be a President, Vice President, Secretary, and Treasurer. The President shall be a member of the Board. The 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 Board of Directors. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary.

B. Election, Term of Office and Vacancies. The officers of the Association shall be elected annually by the Board of Directors at the first meeting of the Board of Directors following each annual meeting of the Members. A vacancy in any office arising because of death, resignation, removal, or otherwise may be filled by the Board of Directors for the unexpired portion of the term.

C. Removal. Any officer may be removed, with or without cause, by a majority vote of the Board of Directors whenever in its judgment the best interests of the Association will be served thereby.

D. Powers and Duties. The officers of the 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 Board of Directors. The President shall be the chief executive officer of the Association. The Treasurer shall have primary responsibility for the preparation of the budget as provided for in the Declaration and may delegate all or part of the preparation and notification duties to a finance committee, management agent, or both.

E. Resignation. Any officer may resign at any time by giving written notice to the 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.

F. Agreements, Contracts, Deeds, Leases, Checks, Etc. All agreements, contracts, deeds, leases, checks, and other instruments of the Association shall be executed by at least two (2) officers or such other person or persons as may be designated by resolution of the Board of Directors.

Article V

Committees

A. General. The Board of Directors is hereby authorized to establish committees 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 established by the Board shall operate in accordance with the terms of the resolution of the Board of Directors designating the committee and such rules as are adopted by the Board of Directors.

Article VI

Miscellaneous

A. Fiscal Year. The fiscal year of the Association shall be set by resolution of the Board of Directors. In the absence of a resolution, the fiscal year shall be the calendar year.

B. Parliamentary Rules. Except as may be modified by Board resolution, Robert's Rules of Order (current edition) shall govern the conduct of Association proceedings when not in conflict with Texas law, the Certificate of Formation, the Declaration, or these By-Laws.

C. Conflicts. If there are conflicts between the provisions of Texas law, the Certificate of Formation, the Declaration, and/or these By-Laws, then the provisions of Texas law, the Declaration, the Certificate of Formation, and the By-Laws (in that order) shall prevail.

D. Books and Records.

1. Inspection by Members and Mortgagees. The Declaration, By-Laws, and Certificate of Formation, any amendments to the foregoing, the rules and regulations of the Association, the membership register, books of account, and the minutes of meetings of the Members, the Board, and committees shall be made available for inspection and copying by any holder, insurer or guarantor of a first mortgage on a Lot, Member of the Association, or by the duly appointed representative of any of the foregoing at any reasonable time during normal business hours at the office of the Association or at such other place as the Board shall prescribe.

2. Rules for Inspection. The Board shall establish reasonable rules with respect to:

- (i) notice to be given to the custodian of 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.

3. Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of the Association and the physical property owned or controlled by the 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 Association.

E. Notices. Unless otherwise provided in these By-Laws, all notices, demands, bills, statements, or other communications under these 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 pre-paid:

(a) if to a Member, at the address that the Member has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the Lot, Tract of such Member; or

(b) if to the Association, the Board of Directors, or the managing agent, at the principal office of the 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.

F. Amendment. These By-Laws may be amended at any time by the majority vote of the Board of Directors with the approval, during the Class B Control Period, of the Declarant. 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.