



SECRETARY'S CERTIFICATE OF PANAMA HISTORIC HOMEOWNERS ASSOCIATION

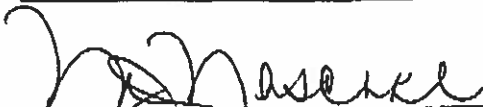
THE STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, being the duly elected, qualified, and acting Secretary of Panama Historic Homeowners Association, a Texas non-profit corporation, the corporation set forth and described in that certain "Declaration of Panama Historic Condominiums" recorded under County Clerk's File Number 2005045439 and 2005062211, both in the Official Public Records of Real Property of Galveston County, Texas, together with all amendments thereto as (said recorded documents and all exhibits and amendments thereto being referred to as "Declaration"), the undersigned Secretary further being the keeper of the minutes and records of said corporation, does hereby certify that the following are true, correct and genuine copies of the following described original documents attached hereto as indicated herein below:

1. *Articles of Incorporation* filed with the Texas Secretary of State on June 20, 2005, attached hereto as Exhibit "A";
2. *Bylaws of Panama Historic Homeowners Association*, attached hereto as Exhibit "B"; and
3. *Rules of Panama Historic Homeowners Association*, attached hereto as Exhibit "C".

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and at Houston, Texas, this 2 day of October, 2009.




 MARY JO NASLAKE, Secretary of
 Panama Historic Homeowners Association, a
 Texas non-profit corporation

THE STATE OF TEXAS

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COUNTY OF _____

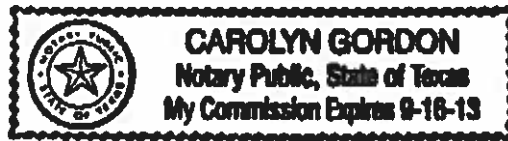
This instrument was acknowledged before me on the 2nd day of October, 2009, by Mary Jo Naschke, Secretary of Panama Historic Homeowners Association, on behalf of said corporation.



Notary Public in and for the State of Texas

RECORD AND RETURN TO:
Frank, Elmore, Lievens,
Chesney & Turet, L.L.P.
Attn: Richard C. Lievens
808 Travis, Suite 2600
Houston, Texas 77002

PAID



FILED
In the Office of the
Secretary of State of Texas

JUN 20 2005

-ARTICLES OF INCORPORATION

Corporations Section

OF

PANAMA HISTORIC HOMEOWNERS ASSOCIATION

The undersigned, a natural person over the age of eighteen years, acting as incorporator of Panama Historic Homeowners Association (the "Association") under the Texas Non-Profit Corporation Act (the "Act"), does hereby adopt the following Articles of Incorporation (these "Articles") for the Association:

ARTICLE I

Condominium Association

The Association shall be, mean, and constitute a unit owners' association organized under Section §2.101 of the Uniform Condominium Act (Texas Property Code, Chapter 82) (the "Condominium Act"), as more specifically described in the Declaration of Panama Historic Condominiums, recorded or to be recorded in the Condominium or Property Records of Galveston County, Texas, as amended from time to time (the "Declaration"), with respect to certain real property located in the City of Galveston, Galveston County, Texas, and described in the Declaration.

ARTICLE II

Name

The name of the Association is Panama Historic Homeowners Association.

ARTICLE III

Non-Profit Corporation

The Association is a Non-Profit corporation.

ARTICLE IV

Duration

The duration of the Association shall be perpetual.

ARTICLE V

Purposes

The purposes for which the Association is formed are to exercise the rights and powers and to perform the duties and obligations of the Association in accordance with the Declaration, the bylaws of the Association (the "Bylaws"), and the laws of the State of Texas, including the Condominium Act, as each may be amended from time to time.

ARTICLE VI

Powers

In furtherance of its purposes, the Association shall have the following powers which, unless otherwise provided in these Articles, the Declaration, the Bylaws, or the laws of the State of Texas, may be exercised by the board of directors:

1. all rights and powers conferred upon Non-Profit corporations by the laws of the State of Texas in effect from time to time;
2. all rights and powers conferred upon condominium associations by the laws of the State of Texas, including the Condominium Act, as amended from time to time; and
3. all powers necessary, appropriate, or advisable to perform any purpose or duty of the Association as set out in these Articles, the Declaration, the Bylaws, or the laws of the State of Texas.

ARTICLE VII

Membership

The Association shall be a non-stock membership corporation. The members of the Association shall consist solely of the owners of units of the condominium created by the Declaration. The Declaration and Bylaws shall determine the number and qualifications of members of the Association; the classes of membership, if any; the voting rights and other privileges of membership; and, the obligations and liabilities of members. Cumulative voting is not allowed.

ARTICLE VIII

Management by Board of Directors

The management and affairs of the Association shall be vested in the board of directors, except for those matters expressly reserved to the members in the Declaration and Bylaws. The Bylaws shall determine the number and qualifications of directors; the term of office of directors; the methods of electing, removing, and replacing directors; and, the methods of holding board meetings and obtaining consents.

ARTICLE IX

Limitations on Liability

An officer or director of the Association shall not be liable to the Association or any unit owner for monetary damages for an act or omission in the officer's or director's capacity as an officer or director, except that this Article IX does not eliminate or limit the liability of an officer or director to the extent the officer or director is found liable for: (1) a breach of the officer's or director's duty of loyalty to the Association; (2) an act or omission not in good faith that constitutes a breach of duty of the officer or director to the Association or an act or omission that involves intentional misconduct or a knowing violation of the law; (3) a transaction from which the officer or director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the officer's or director's office; or (4) an act or omission for which the liability of the officer or director is expressly prohibited by statute.

If the Texas Miscellaneous Corporation Laws Act, the Condominium Act, or the Act is amended after the date of adoption of this Article IX to authorize action further eliminating or limiting the personal liability of officers or directors, then the liability of an officer or director of the Association shall be eliminated or limited to the fullest extent permitted by such statutes, as so amended. Any repeal or modification of the foregoing paragraph shall not affect adversely any right of protection of an officer or director of the Association existing at the time of such repeal or modification.

ARTICLE X *Amendment of Articles*

These Articles may be amended in accordance with the requirements of the Act; *provided, however, that:*

- A. an amendment shall not conflict with the Declaration or the Condominium Act.
- B. an amendment shall not impair or dilute a right granted to a person by the Declaration, without that person's written consent.

ARTICLE XI *Amendment of Bylaws*

The Bylaws of the Association shall be amended or repealed according to the amendment provision of the Bylaws, which may reserve those powers to the members, exclusively.

ARTICLE XII *Dissolution*

The Association may be dissolved only as provided in the Declaration, the Bylaws, and the laws of the State of Texas. On dissolution, the assets of the Association shall be distributed in accordance with the Declaration provision for distribution upon termination; if the Declaration has no such provision, then in accordance with the termination provision of the Condominium Act.

ARTICLE XIII

Action By Non-Unanimous Consent Without Meeting

Unless otherwise restricted by law, these Articles, or the Bylaws, any action required or permitted to be taken at any meeting of the members, directors, or members of a committee of the board of directors may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by a sufficient number of members, directors, or members of a committee of the board of directors as would be necessary to take that action at a meeting at which all of the members, directors, or members of a committee of the board of directors were present and voted. Such written consent shall bear the date of the signature of each member, director, or committee member who signs the consent, and such written consent shall not be effective unless, within sixty (60) days after the date of the earliest dated consent, a consent or consents signed by the required number of members, directors, or committee members is delivered to the Association. Delivery shall be by hand or certified or registered mail, return receipt requested. Prompt notice of the taking of any action by members, directors, or committee members without a meeting by less than unanimous written consent shall be given to all members, directors, or committee members who did not consent in writing to the action.

ARTICLE XIV

Initial Board of Directors

The number of directors constituting the board of directors of the Association and their qualifications shall be fixed or determined by, or in the manner provided in, the Bylaws of the Association. In the absence of a bylaw providing for the number of directors, or should the Association fail to determine the number of directors in the manner provided in the Bylaws, the number of directors constituting the board of directors shall be three (3). The number of directors constituting the initial board of directors is two (2), and the names and addresses of the persons who are to serve as the initial directors of the Association are:

<u>Name</u>	<u>Address</u>
Andrew Kaldia	2311 Dunlavy, Suite 200 Houston, Texas 77006
Wendy Schneider	3619 Rolling Forest Drive Spring, Texas 77388
Jim Nonis	202 25 th Street #101 Galveston, Texas 77550

ARTICLE XV

Initial Registered Office Registered Agent

The address of its initial registered office of the Association is 2311 Dunlavy, Suite 200, Houston, Texas 77006, and the name of the initial registered agent at such address is Andrew Kaldia.


ARTICLE XVI

Incorporation

The name and street address of the incorporator are as follows:

Andrew Kaldia
2311 Dunlavy, Suite 200
Houston, Texas 77006

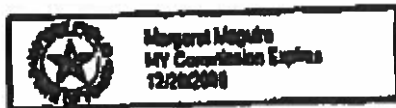
I execute these Articles of Incorporation on this 20th day of June, 2005.


Andrew Kaldia

THE STATE OF TEXAS §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 20 day of June, 2005, by Andrew Kaldia.


Notary Public, State of Texas



BYLAWS
OF
PANAMA HISTORIC HOMEOWNERS ASSOCIATION

(a Texas nonprofit corporation)

Exhibit

B

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**BYLAWS
OF
PANAMA HISTORIC HOMEOWNERS ASSOCIATION
(a Texas nonprofit corporation)**

ARTICLE I

Purposes; Defined Terms

Section 1.1 *Purposes of Association.* The Panama Historic Homeowners Association, a Texas nonprofit corporation and condominium association (the "Association"), is organized exclusively to exercise the rights and powers and to perform the duties and obligations of the Association in accordance with the Declaration of Panama Historic Condominiums, to be recorded in the Real Property Records of Galveston County, Texas (the "Declaration"), the Articles of Incorporation of the Association (the "Articles"), these bylaws (these "Bylaws"), and the laws of the State of Texas, as each may be amended from time to time.

Section 1.2 *Purpose of Bylaws.* These Bylaws provide for the governance of the Condominium known as PANAMA HISTORIC CONDOMINIUMS (the "Condominium") located in the City of Galveston, Galveston County, Texas, subject to and more fully described in the Declaration.

Section 1.3 *Definitions.* Capitalized terms not defined herein or in the Declaration shall have the meaning specified or used in the Uniform Condominium Act (Texas Property Code, Chapter 82) (the "Act").

ARTICLE II

Members

Section 2.1 *Membership.* The members of the Association (the "Members") shall consist solely of the owners of Units of the Condominium created by the Declaration.

Section 2.2 *Annual Meeting.* An annual meeting of the Members of the Association shall be held during the month of April of each year, or at such other time and place as the Board of Directors of the Association shall determine. At annual meetings, the Members shall elect directors of the Association ("Directors") in accordance with these Bylaws and may also transact such other business of the Association as may properly come before them.

Section 2.3 *Special Meetings.* Except as otherwise provided by law or the Declaration, a special meeting of the Association may be called by the President, a majority of the members of the Board of Directors, or by Unit Owners having at least 30 percent of the votes entitled to be cast at such meeting. Such meeting shall be held within 30 days after being called. No more than two special meetings may be held during any 30-day period. Business transacted at any special meeting of Members shall be limited to the purposes stated in the notice of the meeting given in accordance with the terms of Section 2.5.

Section 2.4 *Place of Meetings.* Meetings of the Association shall be held at the Condominium or at a suitable place convenient to the Members, as determined by the Board of Directors.

Section 2.5 *Notice of Meetings; Waiver.* Notice of each meeting of Members, stating the place, day, and hour of any meeting and, in case of a special meeting of Members, the purpose or purposes for which the meeting is called, shall be given at least 10 days but not more

than 60 days prior to such meeting. Notices shall also set forth any other items of information deemed appropriate by the Board of Directors. If a Unit is owned by more than one person, notice to one co-owner shall be deemed notice to all co-owners. Notice may be given either personally, by electronic telecommunication, by facsimile transmission, or by mail, by or at the direction of the persons calling the meeting, to each Member. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the Member at the address shown on the Association's records. If transmitted by telecommunication or facsimile, notice shall be deemed delivered on successful transmission. Whenever any notice is required to be given to a Member, a written waiver of the notice, signed by the person or persons entitled to such notice, whether before or after the time stated in the notice, shall be equivalent to the giving of such notice. Attendance by a Member, whether in person or by proxy, at any meeting of the Association shall constitute a waiver of notice by such Member of the time, place, and purpose of such meeting. If all Members are present at any meeting of the Association, no notice shall be required and any business may be transacted at such meeting.

Section 2.6 *Ineligibility.* The Board of Directors may determine that no Member may (i) vote at meetings of the Association or (ii) be elected to serve as a Director if the Member's financial account with the Association is in arrears on the record dates provided below, provided each ineligible Member shall be given notice of the arrearage and an opportunity to become eligible. The Board of Directors may specify the manner, place, and time for payment for purposes of restoring eligibility.

Section 2.7 *Record Dates.*

(a) ***Determining Voting Eligibility.*** The record date for determining the Members entitled to vote on the record date may not be more than 60 days before the date on which Members will vote.

(b) *Determining Rights Eligibility.* The Board of Directors shall fix a date as the record date for determining the Members entitled to exercise any rights other than those described in the preceding paragraph. The record date may not be more than 60 days before the date of the action for which eligibility is required, such as nomination to the Board of Directors.

(c) *Adjournments.* A determination of Members entitled to notice of or to vote at a meeting of the Association is effective for any adjournment of the meeting unless the Board of Directors fixes a new date for determining the right to notice or the right to vote. The Board of Directors must fix a new date for determining the right to notice or the right to vote if the meeting is adjourned to a date more than 90 days after the record date for determining Members entitled to notice of the original meeting.

Section 2.8 *Voting Members List.* The Board of Directors shall prepare and make available a list of the Association's voting Members in accordance with Art. 1396-2.1 IB of the Texas Non-Profit Corporation Act.

Section 2.9 *Quorum.* At any meeting of the Association the presence in person or by proxy of Members entitled to cast at least 30 percent of the votes that may be cast shall constitute a quorum. Members present at a meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal, during the course of the meeting, of Members constituting a quorum.

Section 2.10 *Votes.* The vote of a majority of the votes entitled to be cast by Members, whether present or represented by proxy at any meeting at which a quorum is present, shall be binding upon all Members for all purposes, unless the vote of a greater number is required by the Declaration, these Bylaws or by law. The right of a Member to vote at any meeting of the Association is subject to the following limitations:

(a) *Co-Owned Units.* If only one of the multiple owners of a Unit is present at a meeting of the Association, that person may cast the vote or votes allocated to that Unit. If more than one of the multiple owners is present, the vote or votes allocated to that Unit may be cast only in accordance with the owners' unanimous agreement. Multiple owners are in unanimous agreement if one of the multiple owners casts the votes allocated to a Unit and none of the other owners of the Unit makes prompt protest to the person presiding over the meeting.

(b) *Corporation-Owned Units.* If a Unit is owned by a corporation, the vote appurtenant to that Unit may be cast by any officer of the corporation in the absence of express notice of the designation of a specific person by the board of directors or bylaws of the owning corporation. The vote of a partnership may be cast by any general partner of the owning partnership in the absence of express notice of the designation of a specific person by the owning partnership. The person presiding over a meeting or vote may require reasonable evidence that a person voting on behalf of a corporation or partnership is qualified to vote.

(c) *Association-Owned Units.* Votes allocated to a Unit owned by the Association may not be cast.

Section 2.11 *Proxies.* Votes allocated to a Unit may be cast in person or by written proxy. To be valid, each proxy shall (i) be signed and dated by a Member or his or her attorney-in-fact; (ii) identify the Unit to which the vote is appurtenant; (iii) name the person in favor of whom the proxy is granted, such person having agreed to exercise the proxy; (iv) identify the purpose or meeting for which the proxy is given; (v) not purport to be revocable without notice; and (vi) be delivered to the Secretary or to the person presiding over the Association meeting for which the proxy is designated. Unless the proxy specifies a shorter or longer time, it shall terminate one year after its date. To revoke a proxy, the granting Member must give actual notice of revocation to the person presiding over the Association meeting for which the proxy is designated. Unless revoked, any proxy designated for a meeting which is adjourned, recessed, or rescheduled shall be valid when such meeting reconvenes.

Section 2.12 *Conduct of Meetings.* The President, or any person designated by the Board of Directors, shall preside over meetings of the Association. The Secretary shall keep, or cause to be kept, the minutes of the meeting which shall record all resolutions adopted and all transactions occurring at the meeting, as well as a record of any votes taken at the meeting. The person presiding over the meeting may appoint a parliamentarian. The then-current edition of Robert's Rules of Order shall govern the conduct of all meetings of the Association when not in conflict with the Governing Documents. Votes shall be tallied by tellers appointed by the person presiding over the meeting.

Section 2.13 *Order of Business.* Unless the notice of meeting states otherwise, the order of business at meetings of the Association shall be as follows:

- (1) Determine votes present by roll call or check-in procedure
- (2) Announcement of quorum
- (3) Proof of notice of meeting
- (4) Reading and approval of minutes of preceding meeting
- (5) Reports
- (6) Election of Directors (when required)
- (7) Unfinished business
- (8) New business

Section 2.14 *Adjournment of Meeting.* At any meeting of the Association, the vote of a majority of the Members present at that meeting, either in person or by proxy, may adjourn the meeting to another time.

ARTICLE III

Board of Directors

Section 3.1 *Powers and Duties.* The Board of Directors shall have all the powers and duties necessary for the administration of the Association and for the operation and maintenance of the Condominium. The Board of Directors may do all such acts and things except those which, by law or the Governing Documents, are reserved to the Members and may not be delegated to the Board of Directors.

Section 3.2 *Number and Term of Office.* The Board of Directors shall consist of three (3) members. Each director shall be elected for a term of three (3) years. At the initial meeting of Owners, one (1) Director shall be elected for a term of three (3) years and the two (2) remaining Directors shall be elected to serve terms of two (2) years and one (1) year, respectively. Thereafter, at the annual meeting of Owners, the Owners shall elect a Director to serve a term of three (3) years to fill the position of the Director whose term has expired at the time of the annual meeting. A Director takes office upon the adjournment of the meeting or balloting at which he or she is duly elected or appointed and, absent death, ineligibility, resignation, or removal, will hold office until his or her successor is duly elected or appointed. The number of Directors may be changed by amendment of these Bylaws, but shall not be less than three (3).

Section 3.3 *Qualification.* No person shall be eligible for election or appointment to the Board of Directors unless such person is a Member and Owner of a Unit, and with the exception of the Commercial Units, such person shall also be a Resident of a Unit. Co-owners of a single Unit may not serve on the Board of Directors at the same time. Co-owners of more than one Unit may serve on the Board of Directors at the same time, provided the number of co-owners serving at one time does not exceed the number of Units they co-own. No Member may be elected or appointed as a Director if any assessment against the Member or such Member's Unit is delinquent at the time of election or appointment. No Member may continue to serve as a Director if any assessment against the Member or such Member's Unit is delinquent more than 60 days.

Section 3.4 *Election.* Directors shall be elected annually by the Members. The election of Directors shall be conducted at the annual meeting of the Association, at any special meeting called for that purpose, or by mail, facsimile transmission, or a combination of mail and facsimile transmission.

Section 3.5 *Vacancies.* Vacancies on the Board of Directors caused by any reason, except the removal of a Director by a vote of the Association, shall be filled by a vote of more than one-half of the remaining Directors, even though less than a quorum, at any meeting of the Board of Directors. Each Director so elected shall serve out the remaining term of his or her predecessor.

Section 3.6 *Removal of Directors.* At any annual meeting or special meeting of the Association, any one or more of the Directors may be removed with or without cause by Members, whether present in person or by proxy at such meeting, representing at least two-thirds of the votes entitled to be cast, and a successor shall immediately be elected to fill the vacancy thus created. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting.

Section 3.7 *Organizational Meeting of the Board of Directors.* Within 10 days after the annual meeting, the Directors shall convene an organizational meeting for the purpose of electing officers. The time and place of such meeting shall be fixed by the Board of Directors and announced to the Directors.

Section 3.8 *Regular Meetings of the Board of Directors.* Regular meetings of the Board of Directors may be held at such time and place as shall be determined, from time to time, by the Board of Directors, but at least one such meeting shall be held each calendar quarter. Notice of regular meetings of the Board of Directors shall be given to each Director, personally or by telephone or written communication, at least three days prior to the date of such meeting.

Section 3.9 *Special Meetings of the Board of Directors.* Special meetings of the Board of Directors may be called by the President or, if he or she is absent or refuses to act, the Secretary, or by any two Directors. At least three days' notice shall be given to each Director, personally or by telephone or written communication, which notice shall state the place, time, and purpose of such meeting.

Section 3.10 *Conduct of Meetings.* The Board of Directors, at each organizational meeting, shall appoint one of their number as President of the Board of Directors. The President of the Board of Directors shall preside over all meetings of the Board of Directors and the Secretary shall keep, or cause to be kept, a record of all resolutions adopted by the Board of Directors and a record of all transactions and proceedings occurring at such meetings. When not in conflict with law or the Governing Documents, the then-current edition of Robert's Rules of Order shall govern the conduct of the meetings of the Board of Directors.

Section 3.11 *Quorum.* At all meetings of the Board of Directors, a majority of Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If less than a quorum is present at any meeting of the Board of Directors, the majority of those present may adjourn the meeting from time to time. At any such reconvened meeting at which a quorum is present, any business which might have been transacted at the meeting as originally called may be transacted without further notice.

Section 3.12 *Presumption of Assent.* Any Director of the Association who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent shall be entered in the minutes of the meeting and unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Association immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 3.13 *Open Meetings.* Regular and special meetings of the Board of Directors shall be open to Members of the Association, but Members who are not Directors may not participate in any deliberations or discussions unless the Board of Directors expressly so authorizes such participation at the meeting. The Board of Directors may adjourn any meeting and reconvene in closed executive session to discuss and vote upon actions involving personnel, pending or threatened litigation, contract negotiations, enforcement actions, matters involving the invasion of privacy of individual Unit Owners, or matters that are to remain confidential by request of the affected parties and agreement of the Board of Directors. The nature of any and all business to be considered in closed executive session shall first be announced in open session.

Section 3.14 *Appointment of Committees.* The Board of Directors, by resolution, may from time to time designate standing or ad hoc committees to advise or assist the Board of Directors with its responsibilities. The resolution shall establish the purposes and powers of each committee created, provide for the appointment of its members, as well as a chairman, and provide for reports, termination, and other administrative matters deemed appropriate by the Board of Directors.

Section 3.15 *Ex-Officio Directors.* The Board of Directors may designate any one or more persons as ex-officio members of the Board of Directors. A person designated as an ex-officio member of the Board of Directors shall be entitled to notice of and to attend meetings of the Board of Directors. The ex-officio member shall not be entitled to vote unless otherwise provided in the Declaration or these Bylaws.

ARTICLE IV

Officers

Section 4.1 *Designation.* The principal offices of the Association shall be the President, the Secretary, and the Treasurer. The Board of Directors may appoint one or more Vice Presidents and such other officers and assistant officers as it deems necessary. Any two offices may be held by the same person, except the offices of President and Secretary. If an

officer is absent or unable to act, the Board of Directors may appoint a Director to perform the duties of that officer and to act in place of that officer, on an interim basis. All officers must be Members and actual occupants or residents of a Unit as their principal homestead throughout their term as an officer.

Section 4.2 *Election of Officers.* The officers shall be elected no less than annually by the Directors at the organizational meeting of the Board of Directors and shall hold office at the pleasure of the Board of Directors. Except for resignation or removal, officers shall hold office until their respective successors have been designated by the Board of Directors.

Section 4.3 *Removal and Resignation of Officers.* A majority of Directors may remove any officer, with or without cause, at any regular meeting of the Board of Directors or at any special meeting of the Board of Directors called for that purpose. A successor may be elected at any regular or special meeting of the Board of Directors called for that purpose. An officer may resign at anytime by giving written notice to the Board of Directors. Unless the notice of resignation states otherwise, it is effective when received by the Board of Directors and does not require acceptance by the Board of Directors. The resignation or removal of an officer who is also a Director does not constitute resignation or removal from the Board of Directors.

Section 4.4 *President.* As the chief executive officer of the Association, the President shall: (i) preside at all meetings of the Association; (ii) have all the general powers and duties which are usually vested in the office of President of a corporation organized under the laws of the State of Texas; (iii) have general supervision, direction, and control of the business of the Association, subject to the control of the Board of Directors; and (iv) see that all orders and resolutions of the Board of Directors are carried into effect.

Section 4.5 *Secretary.* The Secretary shall: (i) keep or cause to be kept the minutes of all meetings of the Board of Directors and of the Association; (ii) have charge of such books, papers, and records as the Board of Directors may direct; (iii) maintain or cause to be maintained a record of the names and addresses of the Members for the mailing of notices; and (iv) in general, perform all duties incident to the office of Secretary.

Section 4.6 *Treasurer.* The Treasurer shall: (i) be responsible for Association funds; (ii) keep or cause to be kept full and accurate financial records and books of account showing all receipts and disbursements; (iii) prepare or cause to be kept all required financial data and tax returns; (iv) deposit or cause to be deposited all monies or other valuable effects in the name of the Association in such depositories as may from time to time be designated by the Board of Directors; (v) prepare the annual and supplemental budgets of the Association; (vi) review the accounts of the managing agent on a monthly basis in the event such managing agent is responsible for collecting and disbursing Association funds; and (vii) perform all the duties incident to the office of Treasurer.

Section 4.7 *Authorized Agents.* Except when the Governing Documents require execution of certain instruments by certain individuals, the Board of Directors may authorize any person to execute instruments on behalf of the Association. In the absence of Board of Directors designation, the President and the Secretary shall be the only persons authorized to execute instruments on behalf of the Association.

ARTICLE V

Rules

Section 5.1 *Rules.* The Board of Directors shall have the right to establish and amend, from time to time, reasonable rules and regulations for: (i) the administration of the Association and the Governing Documents; (ii) the maintenance, management, operation, use, conservation, and beautification of the Condominium; and (iii) the health, comfort, and general welfare of the Residents; *provided, however,* that such rules may not be in conflict with law or the Governing Documents. The Board of Directors shall, at all times, maintain the then-current and complete rules in a written form which can be copied and distributed to the Members. Rules need not be recorded in the county's real property records.

Section 5.2 *Adoption and Amendment.* Any rule may be adopted, amended, or terminated by the Board of Directors, provided that the rule and the requisite Board of Directors approval are properly recorded as a resolution in the minutes of the meeting of the Board of Directors.

Section 5.3 *Notice and Comment.* The Board of Directors shall give written notice to an owner of each Unit of any amendment, termination, or adoption of a rule, or shall publish same in a newsletter or similar publication which is circulated to the Members, at least 10 days before the rule's effective date. The Board of Directors may, but shall not be required, to give similar notice to Residents who are not Members. Any Member or Resident so notified shall have the right to comment orally or in writing to the Board of Directors on the proposed action.

Section 5.4 *Distribution.* Upon request from any Member or Resident, the Board of Directors shall provide a current and complete copy of rules. Additionally, the Board of Directors shall, from time to time, distribute copies of the current and complete rules to an owner of each Unit and, if the Board of Directors so chooses, to non-Member Residents.

ARTICLE VI

Enforcement

Section 6.1 *Enforcement.* The violation of any provision of the Governing Documents shall give the Board of Directors the right, after notice and hearing, except in case of an emergency, in addition to any other rights set forth in the Governing Documents:

(a) to enter the Unit or Limited Common Element in which, or as to which, the violation or breach exists and to summarily abate and remove, at the expense of the defaulting owner, any structure, thing, or condition (except for additions or alterations of a permanent nature that may exist in that Unit) that is existing and creating a danger to the Common Elements contrary to the intent and meaning of the provisions of the Governing Documents. The Board of Directors shall not be deemed liable for any manner of trespass by this action; or

(b) to enjoin, abate, or remedy by appropriate legal proceedings, either at law or in equity, the continuance of any breach.

(c) Any controversies, claims or disputes involving the Developer of Panama Historic Condominiums and its representatives, the Association, the Consultant to Developer and its representatives, the General Contractor for the Developer, or any Member and their tenants which cannot be resolved by good faith negotiations shall be resolved by mandatory and binding arbitration and the following shall apply: (a) the arbitration shall be decided by one (1) arbitrator. The parties shall choose a mutually acceptable arbitrator, and in the event the parties cannot agree on the selection of the arbitrator, each party shall choose an arbitrator and those two (2) arbitrators shall agree upon the appointment of a third arbitrator who shall be the sole arbitrator; (b) the fees for the arbitration shall be shared equally by the parties and reimbursed to the prevailing party by the non-prevailing party, and such fees shall be consistent with the fees currently charged by arbitrators in Galveston County, Texas without regard to the amount in controversy; and (c) a final binding award by the arbitrator shall be made within thirty (30) days from the date of the first notice of the dispute unless extended by mutual agreement or good reason by the arbitrator. All decisions by the Arbitrator shall be final, and any judgment upon the award rendered by the Arbitrator may be confirmed, entered and enforced in any court having proper jurisdiction.

ARTICLE VII

Obligations of the Owners

Section 7.1 *Proof of Ownership.* Except for those owners who initially purchase a Unit from Declarant, any person, on becoming an owner of a Unit, shall furnish to the Board of Directors evidence of ownership in the Unit, which copy shall remain in the files of the Association. A Member shall not be deemed to be in good standing nor be entitled to vote at any annual or special meeting of the Association unless this requirement is first met. This requirement may be satisfied by receipt of a Board of Directors-approved form that is completed and acknowledged by a title company or attorney at time of conveyance of the Unit or any interest therein. The Association shall be entitled to charge a reasonable fee for the registration of the transfer of Ownership.

Section 7.2 *Owners' Addresses.* Not later than the 30th day after the date of acquiring an interest in a Unit, the Unit Owner shall provide the Association with: (i) the Unit Owner's mailing address, telephone number, and driver's license number, if any; (ii) the name and address of the holder of any lien against the Unit, and any loan number; (iii) the name and telephone number of any person occupying the Unit other than the Unit Owner; and (iv) the name, address, and telephone number of any person managing the Unit as agent of the Unit Owner. A Unit Owner shall notify the Association not later than the 30th day after the date the owner has notice of a change in any of the foregoing information, and shall provide the information on request by the Association from time to time. If an owner fails to maintain a current mailing address with the Association, the address of that owner's Unit shall be deemed to be his or her mailing address.

Section 7.3 *Registration of Mortgagees.* A Unit Owner who mortgages his or her Unit shall furnish the Board of Directors with the name and mailing address of his or her mortgagee.

Section 7.4 *Assessments.* All owners shall be obligated to pay assessments imposed by the Association to meet the Common Expenses. A Member shall be deemed to be in good standing and entitled to vote at any meeting of the Association if he or she is current in the assessments made or levied against him or her and his or her Unit.

Section 7.5 *Compliance With Governing Documents.* Each owner shall comply with the provisions and terms of the Governing Documents, and any amendments thereto. Further, each owner shall always endeavor to observe and promote the cooperative purposes for which the Condominium was established.

ARTICLE VIII
Association Records

Section 8.1 *Records.* The Association shall use its best efforts to keep the following records:

- (a) Minutes or a similar record of the proceedings of meetings of the Association.
- (b) Minutes or a similar record of the proceedings of meetings of the Board of Directors.
- (c) The name and mailing address of each Member, the currency and accuracy of the information being the responsibility of the Members.
- (d) The name and mailing address of each mortgagee, the currency and accuracy of the information being the responsibility of each Member and such Member's mortgagee.
- (e) Financial records and books of account for the Association that comply with generally accepted accounting principles and that are sufficiently detailed to enable the Association to prepare a resale certificate as provided for in the Act.
- (f) The plans and specifications used to construct the Condominium.
- (g) The plans and specifications acquired by the Association over time for improvements to the Condominium.
- (h) The Condominium Information Statement and any amendments thereto.

- (l) Voting records, proxies, and correspondence relating to amendments to the Declaration.
- (j) Copies of income tax returns prepared for the Internal Revenue Service.
- (k) Copies of the Governing Documents and all amendments to any of these. Also, for at least four years, a record of all votes or written consents by which amendments to the Governing Documents were approved.

Section 8.2 *Inspection of Books and Records.* A Unit Owner, on written demand stating the purpose of the demand, has the right to examine and copy, in person or by agent, accountant, or attorney, at any reasonable time, for any proper purpose, the books and records of the Association relevant to that purpose, at the expense of the Unit Owner.

Section 8.3 *Resale Certificates.* Any officer of the Association may prepare, or cause to be prepared, certify, and execute resale certificates in accordance with Section 82.157 of the Act. The Association may charge a reasonable fee for preparing a resale certificate. The Association may refuse to furnish a resale certificate until the fee is paid. Any unpaid fees may be assessed against the Unit for which the resale certificate is furnished.

ARTICLE IX

Indemnification and Insurance

Section 9.1 *Indemnification.* Each person who is or was a Director, officer, or committee member of the Association, or any person who, while a Director, officer, or committee member of the Association, is or was serving at the request of the Association as a Director, officer, committee member, partner, venturer, proprietor, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, and the heirs, executors, or administrators or estate of such person, shall be indemnified by the Association to the fullest

extent permitted or authorized by the Act or any successor provision, as amended from time to time, against any liability, cost, or expense incurred by such person in his or her capacity as a Director, officer, or committee member, or arising out of his or her status as a Director, officer, or committee member. The rights granted pursuant to this Article IX shall be deemed contract rights, and no repeal or amendment of this Article IX shall have the effect of limiting or denying any such rights with respect to actions taken or proceedings arising prior to any such amendment or repeal.

Section 9.2 *Advance Payments.* The Association may, but shall not be obligated to, pay expenses incurred in defending a civil or criminal act, suit or proceeding arising out of a Director's, officer's, or committee member's capacity or status as Director, officer, or committee member in advance of the final disposition of such action, suit, or proceeding, without any determination as to the person's ultimate entitlement to indemnification; *provided, however,* that the payment of such expenses incurred by any such person in advance of the final disposition of a proceeding shall be made only upon delivery to the Association of both a written affirmation by such person of his or her good-faith belief that he or she has met the standard of conduct necessary for indemnification under this Article IX and a written undertaking, by or on behalf of such person, to repay all amounts so advanced if it is ultimately determined that such person is not entitled to be indemnified under this Article IX or otherwise.

Section 9.3 *Appearance as a Witness.* Notwithstanding any other provision of this Article IX, the Association may, but shall not be obligated to, pay or reimburse expenses incurred by a Director, officer or committee member in connection with his or her appearance as a witness or other participation in a proceeding at a time when he or she is not a named defendant or respondent in the proceeding.

Section 9.4 *Indemnification of Employees and Agents.* The Association, by adoption of a resolution of the Board of Directors, may, but shall not be obligated to, indemnify and advance expenses to an employee or agent of the Association to the same extent and subject to the same conditions under which the Association may indemnify and advance expenses to Directors, officers and committee members under this Article IX.

Section 9.5 *Non-Exclusive.* The indemnification provided by this Article IX shall not be exclusive of any other rights to which those seeking indemnification may be entitled as a matter of law or under any agreement or otherwise.

Section 9.6 *Insurance.* The Association may, but shall not be obligated to, maintain insurance at its expense, to protect itself and any person who is or was a Director, officer, committee member, employee, or agent of the Association or is or was serving at the request of the Association as a Director, officer, committee member, partner, venturer, proprietor, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise against any liability asserted against him or her and any liability, cost, or expense incurred by him or her in such capacity or arising out of his or her status as such a person, whether or not the Association would have the power to indemnify such person against that liability under this Article IX or the Act.

ARTICLE X

Declarant Provisions

Section 10.1 *Conflict.* The provisions of this Article X shall control over any provision to the contrary elsewhere in these Bylaws.

Section 10.2 *Board of Directors.* During the period of Declarant control, Section 8.3 of the Declaration shall govern the number, qualification, and appointment of Directors. The initial Directors shall be appointed by Declarant and need not be Unit Owners or Residents. Directors appointed by Declarant may not be removed by the Unit Owners and may be removed by Declarant only. Declarant has the right to fill vacancies in any directorship vacated by a Declarant appointee.

Section 10.3 *Organizational Meeting.* Within 60 days of the end of the period of Declarant control, or sooner at Declarant's option, Declarant shall call an organizational meeting of the Members for the purpose of electing Directors, by ballot of Members. Notice of the organizational meeting shall be given as if it were notice of an annual meeting.

ARTICLE XI

Amendment of Bylaws

Section 11.1 *Proposals.* The Association shall provide an owner of each Unit with a detailed description, if not exact wording, of any proposed amendment. Such description shall be included in the notice of any annual or special meeting of the Association if such proposed amendment is to be considered at said meeting.

Section 11.2 *Consents.* Except as otherwise provided by law or the Declaration, an amendment shall be adopted by the vote, in person or by proxy, or written consents of Members representing at least a majority of the votes entitled to be cast at a meeting for which a quorum is obtained.

Section 11.3 *Elective.* To be effective, each amendment must be in writing, reference the names of the Condominium and the Association, be signed by at least two officers acknowledging the requisite approval of Members, and be delivered to an owner of each Unit at least 10 days before the amendment's effective date. Further, if these Bylaws are publicly recorded, the amendment must recite the recording data for the Bylaws, be in a form suitable for recording as a real property record, and be delivered to the county clerk for recordation.

Section 11.4 *Declarant Protection.* As long as the Declarant owns a Unit in the Condominium, no amendment of these Bylaws may affect the Declarant's rights herein without the Declarant's written and acknowledged consent. Specifically, this Section 11.4 may not be amended without prior written approval of the Declarant. The Declarant's written consent shall be part of the amendment instrument.

ARTICLE XII

General Provisions

Section 12.1 *Contracts.* The President shall have the power and authority to execute, on behalf of the Association, contracts or instruments in the usual and regular course of business, and in addition the Board of Directors may authorize any officer or officers, agent or agents, of the Association to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Association, and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or these Bylaws, no officer, agent, or employee shall have any power or authority to bind the Association by any contract or engagement, or to pledge its credit or to render it pecuniarily liable for any purpose or in any amount.

Section 12.2 *Checks, Drafts, etc.* All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Association shall be signed by such officers, agents or employees of the Association as shall from time to time be authorized pursuant to these Bylaws or by resolution of the Board of Directors.

Section 12.3 *Depositories.* All funds of the Association shall be deposited from time to time to the credit of the Association in such banks or other depositories as the Board of Directors may from time to time designate, and upon such terms and conditions as shall be fixed by the Board of Directors. The Board of Directors may from time to time authorize the opening and maintaining within any such depository as it may designate, of general and special accounts, and may make such special rules and regulations with respect thereto as it may deem expedient.

Section 12.4 *Corporate Seal.* The corporate seal, if any, shall be in such form as the Board of Directors shall approve, and such seal, or a facsimile thereof, may be impressed on, affixed to, or in any manner reproduced upon, instruments of any nature required to be executed by officers of the Association.

Section 12.5 *Compensation.* A Director, officer, Member, or Resident shall not be entitled to receive any pecuniary profit from the operation of the Association, and no funds or assets of the Association may be paid as a salary or as compensation to, or be distributed to, or inure to the benefit of, a Director, officer, Member, or Resident; *provided, however,* that:

(a) reasonable compensation may be paid to a Director, officer, Member, or Resident for services rendered to the Association;

(b) a Director, officer, Member, or Resident may, from time to time, be reimbursed for his or her actual and reasonable expenses incurred on behalf of the Association in connection with the administration of the affairs of the Association, provided such expense has been approved by the Board of Directors; and

(c) this provision does not apply to distributions to Unit Owners permitted or required by the Declaration or the Act.

Section 12.6 *Action by Non-Unanimous Written Consent.* Unless otherwise restricted by law, the Articles or these Bylaws, any action required or permitted to be taken at any meeting of the Members, members of the Board of Directors, or members of any committee of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action to be so taken, is signed by a sufficient number of Members, members of the Board of Directors, or committee members as would be necessary to take that action at a meeting at which all of the Members, members of the Board of Directors, or committee members were present and voted.

Such written consent shall bear the date of the signature of each Member, member of the Board of Directors, or committee member who signs the consent, and such written consent shall not be effective unless, within sixty (60) days after the date of the earliest dated consent, a consent or consents signed by the required number of Members, members of the Board of Directors, or committee is delivered to the Association. Delivery shall be by hand or certified or registered mail, return receipt requested. Prompt notice of the taking of any action by Members, members of the Board of Directors, or committee members without a meeting by less than unanimous written consent shall be given to all Members, members of the Board of Directors or committee members who did not consent in writing to the action. This Section may not be used to avoid the requirement of an annual meeting.

Section 12.7 *Meetings by Conference Telephone.* The Members, members of the Board of Directors, or members of any committee of the Board of Directors may participate in and hold a meeting of the Members, members of the Board of Directors, or committee members by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such meeting shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 12.8 *Conflicting Provisions.* If any provision of these Bylaws conflicts with any provision of the laws of the State of Texas, such conflicting Bylaws provision shall be null and void, but all other provisions of these Bylaws shall remain in full force and effect. In the case of any conflict between the Articles and these Bylaws, the Articles shall control. In the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

Section 12.9 *Severability.* Invalidation of any provision of these Bylaws, by judgment or court order, shall in no wise affect any other provision which shall remain in full force and effect.

The effect of a general statement shall not be limited by the enumerations of specific matters similar to the general.

Section 12.10 *Fiscal Year.* The fiscal year of the Association shall be set by resolution of the Board of Directors, and is subject to change from time to time as the Board of Directors shall determine. In the absence of a resolution by the Board of Directors, the fiscal year shall be the calendar year.

Section 12.11 *Waiver.* No restriction, condition, obligation, or covenant contained in these Bylaws shall be deemed to have been abrogated or waived by reason of failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

RULES
OF
PANAMA HISTORIC
HOMEOWNERS ASSOCIATION

Exhibit

C

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RULES
OF
PANAMA HISTORIC HOMEOWNERS ASSOCIATION

These Rules have been adopted by the Board of Directors of Panama Historic Homeowners Association, a Texas nonprofit corporation and condominium association (the "Association"), in accordance with the provisions of Article II and IV of the Declaration of Panama Historic Condominiums (the "Declaration"), to be recorded in the Real Property Records of Harris County, Texas.

These Rules apply to all Units and Common Elements of Panama Historic Condominiums ("Panama" or the "Condominium"). By owning or occupying a Unit in The Panama Historic Condominiums, each Owner and Resident agrees to abide by these Rules, as well as the obligations of Owners and Residents provided in the Declaration and Bylaws.

For the convenience of Owners and Residents of Panama, these Rules restate some of the rules and covenants contained in the Declaration. Most of these Rules, however, are in addition to the restrictions found in the Declaration. Words and phrases defined in the Declaration shall have the same meaning when used in these Rules. In the event of a conflict between Governing Documents (as defined herein), the hierarchy of authority shall be as follows: Declaration (highest), Articles of Incorporation, Bylaws, and these Rules (lowest). All Governing Documents are subject to the Uniform Condominium Act (Texas Property Code, Chapter 82).

A. COMPLIANCE

- A-1. *Historic Building Preservation Compliance.* The Panama shall at all times remain subject to and comply with the covenants, restrictions and conditions relating to the preservation and conservation of historic property as may be dictated, regulated, governed, required and/or approved by the City of Galveston, it's codes and

guidelines, together with the State of Texas and the U.S. Secretary of the Interior's standards for rehabilitation and guidelines for rehabilitating historic buildings, together with all other applicable regulatory authorities, laws, acts, and codes, as from time to time may be amended, including, without limitation, the covenants, restoration, and repurchase rights, set forth in the Real Property Records of Galveston County, Texas.

- A-2. *General Compliance.* Each Owner shall comply with the provisions of these Rules, the Declaration, the Bylaws, and community policies promulgated by the Board of Directors to supplement these Rules, as any of these may be revised from time to time (collectively, the "Governing Documents"). Each Owner, additionally, shall be responsible for compliance with the Governing Documents by the occupants of his or her Unit, and his or her or their respective families, invitees, tenants, agents, employees, or contractors. Use of "Owner" or "Resident" in these Rules shall be deemed to include and apply to the owner of a Unit in Panama and to all persons for whom the owner is responsible. An Owner should contact the Board of Directors if he or she has a question about these Rules.
- A-3. *Additional Rules.* Each Resident shall comply with all rules and signs posted from time to time on the Condominium by the Association, including those regulating the use of recreational facilities. Such posted rules are incorporated in these Rules by reference. Each Resident shall comply with notices communicated by the Association, from time to time, in the nature of seasonal or temporary rules, or notice of a change affecting use of the Condominium. Such temporary rules are incorporated in these Rules by reference.
- A-4. *Waiver.* Certain circumstances may warrant waiver or variance of these Rules. An Owner must make written application to the Board of Directors for such waiver or variance. If the Board of Directors deems the waiver or variance warranted, the Board of Directors may condition its approval, which must be in writing to be effective.

B. OBLIGATIONS OF OWNERS AND RESIDENTS

- B-1. *Safety.* Each Resident is solely responsible for his or her own safety and for the safety, well-being and supervision of his or her guests and any person on the Condominium to whom the Resident has a duty of care, control, or custody.
- B-2. *Damage.* Each Owner is responsible for any loss or damage to his or her Unit, other Units, the personal property of other Residents or their guests, or to the Common Elements and improvements, if such loss or damage is caused by the Owner or by any person for whom the Owner is responsible.
- B-3. *Association Does Not Insure.* Each Resident is solely responsible for insuring his or her personal property in the Unit and on the Condominium, including his or her furnishings, automobile, and items kept in storage areas. Personal property placed in or on the Condominium shall be solely at the risk of Resident or the Owner of such personal property. **The Association requires Owners and Residents to purchase insurance on their personal belongings and liability insurance for occurrences within their Units.**
- B-4. *Risk Management.* No Resident shall permit anything to be done or kept in his or her Unit or the Common Elements which will result in the cancellation of insurance on any Unit, or any part of the Common Elements ("Common Elements"), general or limited or which may be in violation of any law.
- B-5. *Reimbursement for Enforcement.* An Owner shall promptly reimburse the Association for any expenses incurred by the Association in enforcing the Governing Documents against the Owner, his or her Unit, or persons for whom the Owner is responsible.

- B-6. *Reimbursement for Damage.*** An Owner shall promptly reimburse the Association for the cost of damage to the Condominium caused by the negligent or willful conduct of the Owner or the persons for whom the Owner is responsible.

C. OCCUPANCY STANDARDS

- C-1. *Numbers.*** A residential Unit may be occupied by no more than two persons per bedroom, unless higher occupancy is mandated by public agencies that enforce compliance with the familial status protection of the Fair Housing Act. Commercial Unit may be occupied by no more than one (1) business operation.
- C-2. *Danger.*** The Association may prohibit occupancy by a person who constitutes a direct threat to the health or safety of other persons, or whose occupancy would result in substantial physical damage to the property of others, pursuant to the Fair Housing Act.
- C-3. *Occupancy Defined.*** Occupancy of a Unit for purposes of these Rules, shall mean occupancy of at least 30 continuous days or 60 noncontinuous days in any 12-month period.
- C-4. *Written Leases.*** Each lease must be in writing, and an Owner shall provide the Board of Directors with a copy of each lease of that Owner's Unit.

D. GENERAL USE AND MAINTENANCE OF UNIT

- D-1. *Residential Use.*** With the exception of the three (3) Commercial Units, which are to be used for retail purposes, each Unit must be used for Residential purposes, and may not be used for commercial or business purposes except for home office use in which the Owner is a sole proprietor or the principal and home professional pursuits subject to the restrictions set forth herein and in all Governing Documents. This restriction shall not prohibit a Resident from using his or her Unit for personal and home office business or professional pursuits, provided that: (i) such use is complimentary to the

Unit's Residential use; (ii) such use conforms to all applicable laws and ordinances; (iii) except as otherwise provided herein, such use entails only nominal visits to the Unit by the public, employees, suppliers, or clients, or any business that is otherwise disruptive or violates the use, enjoyment, and rights of other Owners; (iv) does not alter the physical appearance of the Unit or Common Elements, does not cause any nuisance (visual, audio, or otherwise); (v) is not sexually oriented or involve the use of hazardous materials; (vi) does not utilize any business signage or advertisement visible from the Unit or from the Condominium property; (vii) does not cause any traffic or parking inconveniences; and (viii) does not involve retail sales to the public. The Owners, by a majority vote, may add, modify, or amend such rules and restrictions as necessary to limit or control such business practices and, in the event of dispute regarding business use of any Unit, the allowance for such business shall be subordinate to the primary residential use.

D-2 *Commercial Use.* The Commercial Units may be used for the operation of retail businesses by the Unit Owners or under leases to conduct any legal and legitimate business purpose which (i) does not alter the physical appearance of the Condominium property; (ii) does not cause any nuisance (visual, audio or otherwise); (iii) is not sexually oriented or involve the use of hazardous materials, and with the exception of the Commercial Unit on the north corner of the Condominium property, does not include a restaurant, bar, tavern, or the sale of any liquor. The Declarant shall have the right and authority as set forth in Section 8.4 of the Declaration to make alternations to any Commercial Unit owned by Declarant, including conversion of a Commercial Unit to a Residential Unit. All Commercial Unit Owners shall have the right, upon notification and approval of any plans by the Board of Directors to convert or change a Commercial Unit to a Residential Unit and thereafter, to change such converted Unit back to a Residential Unit with all such plans and permits to be approved by the Board of Directors and in accordance with all City codes, rules and regulations, provided, however, the percentage interest in the Common Elements and number of votes provided for such Units shall not change.

- D-3. *Annoyance.* No Unit may be used in any way that: (i) may reasonably be considered annoying to occupants of neighboring Units; (ii) may be calculated to reduce the desirability of the Condominium as a Residential community; (iii) may endanger the health or safety of other Residents; or (iv) may violate any law or any provision of the Governing Documents.
- D-4. *Maintenance.* Each Owner, at his or her sole cost and expense, shall maintain his or her Unit and keep it in good repair, including the inner, finished surfaces of the Unit's perimeter walls, floors, and ceilings.
- D-5. *Patio/Balcony.* Each Resident shall keep his or her Unit and patio or balcony, if any, in a good state of cleanliness, taking care that the cleaning of his or her patio or balcony does not annoy or inconvenience other Residents and shall not install any umbrellas or awnings. A patio/balcony may not be enclosed or used for storage purposes. The Association, through the Board of Directors, shall have right, in its sole discretion, to limit and restrict the permanent or temporary placement of any specified type or category of items of personal property on balconies, terraces, or any other exposed or exterior portions of the Panama by Owners as may be determined to be necessary or desirable for the health, safety, welfare, aesthetic integrity and/or uniformity of the Panama. If the Board of Directors determines that a patio/balcony is unsightly, or otherwise is in violation of these Rules, the Owner shall be given notice by the Board of Directors to correct the problem within 5 days, after which the Board of Directors may take corrective action at the Owner's expense.
- D-6. *Glass.* Each Owner, at his or her sole cost and expense, shall promptly repair and replace any broken or cracked glass in his or her Unit's windows and doors.
- D-7. *Air Conditioning Equipment.* Each Owner, at his or her sole cost and expense, shall maintain, repair, and replace the heating and cooling equipment/system serving his or her Unit and shall not alter or store items of personal property in the heating and cooling equipment/system closet.

- D-8. *Combustibles/Hazardous Materials.* A Resident shall not store or maintain, anywhere on the Condominium (including within a Unit) explosives or materials capable of spontaneous combustion or any type of hazard materials as defined by Federal, State and/or local laws, codes, rules or regulations.
- D-9. *Barbecue Grills.* The use of all outdoor cooking grills is prohibited unless otherwise authorized by the Board of Directors. If the use of outside grills is permitted, (i) open fires must be supervised at all times; (ii) gas tanks must be properly used and maintained; (iii) no flames may be higher than the cooking surface; and (iv) a grill may not be used near combustible materials.
- D-10. *Report Malfunctions.* A Resident shall immediately report to the Board of Directors his or her discovery of any leak, break, or malfunction in any portion of his or her Unit or the adjacent Common Elements for which the Association has a maintenance responsibility. The failure to report promptly a problem may be deemed negligence by the Resident, who may be liable for any additional damage caused by the delay.
- D-11. *Utilities.* Each Resident shall endeavor to conserve the use of utilities furnished through the Association, including water consumption within his or her Unit.
- D-12. *Frozen Water Pipes.* Because the Condominium is constructed with water lines in the exterior alley, it is the duty of every Owner and Resident to protect such water lines from freezing during winter months. Between November 1 and March 25 of any year, no Unit may be left unheated. During periods of anticipated below-freezing temperatures, water lines in exterior walls should be allowed to drip continuously, and cabinets enclosing plumbing lines should be left ajar. Dishwashers on exterior walls should not be used during and immediately after periods of extreme cold. Failure by an Owner or Resident to monitor the local weather and take appropriate precautions shall be deemed negligence.

D-13 *Structural Alterations.* A Resident shall not alter, construct, install, change or otherwise perform any act in violation of any city ordinance or code of the City of Galveston or which may in any way affect or compromise the structural integrity of the Unit or Condominium building, including, without limitation, drilling holes or removing any portion of demising walls (common wall between Units) for the purpose of installing personal property or fixtures or drilling into or removing any portion of the concrete ceiling or floors.

E. GENERAL USE & MAINTENANCE OF COMMON ELEMENTS

- E-1. *Intended Uses.* Every area and facility in the Condominium may be used only for its intended and obvious use. For example, walkways, stairways, sidewalks, elevators, and driveways are to be used exclusively for purposes of access, not for social congregation or recreation.
- E-2. *Grounds.* Unless the Board of Directors designates otherwise, Residents may not use or abuse the landscaped areas, lawns, beds, and plant materials on the Common Elements. The following are expressly prohibited: digging, planting, pruning, and climbing.
- E-3. *Abandoned Items.* No item or object of any type shall be stored, placed, or maintained anywhere on the general Common Elements, including window sills, passageways and courtyards, except by the Board of Directors or with the prior written consent of the Board of Directors. Items of personal property found on general Common Elements are deemed abandoned and may be disposed of by the Board of Directors.
- E-4. *Stored Items.* If the Association provides storage areas for use by Residents, Resident agrees that the Association is not responsible for items stored there by Resident, who shall be solely liable at all times for his or her personal property.

F. COMMUNITY ETIQUETTE

- F-1. *Courtesy.* Each Resident shall endeavor to use his or her Unit and the Common Elements in a manner calculated to respect the rights and privileges of other Residents.
- F-2. *Annoyance.* A Resident shall avoid doing or permitting anything to be done that will annoy, harass, embarrass, or inconvenience other Residents or their guests, or the Association's employees and agents.
- F-3. *Noise and Odors.* Each Resident shall exercise reasonable care to avoid making or permitting to be made loud, disturbing, or objectionable noises or noxious odors that are likely to disturb Residents of other Units.
- F-4. *Reception Interference.* Each Resident shall avoid doing or permitting anything to be done that may unreasonably interfere with the television, radio, telephonic, or electronic reception on the Condominium.
- F-5. *No Personal Service.* The Association's employees and agents are not permitted or authorized to render personal services to Residents. Each Resident agrees that the Association is not responsible for any item or article left with or delivered to the Association's employees or agents on behalf of such Resident.
- F-6. *Compliance with Law.* Residents may not use the Condominium for unlawful activities. Residents shall comply with applicable laws and regulations of the United States and of the State of Texas, and with ordinances, rules, and regulations of the City of Galveston, Texas. A Resident who violates this provision shall hold the Association and other Owners and Residents harmless from all fines, penalties, costs, and prosecutions for the Resident's violation or noncompliance.

G. ARCHITECTURAL CONTROL

G-1. *Common Elements.* Without the Board of Directors's prior written approval, a person may not change, remodel, decorate, destroy, or improve the Common Elements, nor do anything to change the appearance of the Common Elements, including without limitation the entry door, balcony or patio, and landing or walkway appurtenant to the Unit.

G-2. *Prohibited Acts.* No person may:

- a. Post signs, notices, or advertisements on the Common Elements or in a Unit if visible from outside his or her Unit, with the exception of the Commercial Units.
- b. Place or hang an object in, on, from, or above any window, interior window sill, balcony, or patio that, in the Board of Directors' opinion, detracts from the appearance of the Condominium.
- c. Hang, shake, or otherwise display linens, clothing, towels, rugs, shoes, mops, bedding or other similar items from windows, doors, balconies, patios, or passageways.
- d. Erect or install exterior horns, lights speakers, aerials, antennas, or other transmitting or receiving equipment, or cause anything to protrude through an exterior wall or roof.
- e. Place decorations on exterior walls or doors, or on the general Common Elements.

G-3. Window Treatments. An Owner may install window treatments inside his or her Unit, at his or her sole expense, provided:

- a. Any window treatment, including drapes, blinds, shades, or shutters, must be clear or white when viewed from outside the Unit;
- b. Aluminum foil and reflective window treatments are expressly prohibited;
- c. Window treatments must be maintained in good condition, and must be removed or replaced if they become stained, torn, damaged, or otherwise unsightly in the opinion of the Board of Directors; and
- d. All Units facing The Strand or 25th Street must use, and may not remove or alter, the initially installed standard white wooden window coverings or blinds.

G-4. Board of Directors Approval. To obtain the Board of Directors' written consent for a modification, change or alternation of his or her Unit, an Owner must submit to the Board of Directors complete plans and specifications showing the nature, kind, shape, size, materials, colors, and location for all proposed work, and any other information reasonably requested by the Board of Directors. The Board of Directors' failure to respond to the Owner's written request within 45 days after it receives the Owner's request shall be construed as no objection to the proposed changes, provided that such modification, change or alteration would not otherwise be in violation of the Declaration, Articles of Incorporation, these Rules, or any law, ordinance or regulation.

H. VEHICLE RESTRICTIONS

H-1. Permitted Vehicles. To be permitted on the Condominium, a vehicle must be operable. For purposes of these Rules, vehicles include automobiles, motorcycles, motorized bikes, passenger trucks, small vans, and similar passenger vehicles. The following are not permitted on the Condominium without the Board of Directors' consent: trailers, boats, recreational vehicles, buses, large commercial trucks and/or, industrial vehicles.

- H-2. Repairs.* Washing, repairs, restoration, or maintenance of vehicles is prohibited, except for emergency repairs, and then only to the extent necessary to enable movement of the vehicle to a repair facility.
- H-3. Space Use.* Because of limited off street parking, all parking spaces on the Condominium property designated for Condominium parking shall be used for parking purposes only, and may not be used for storage. No parking space may be enclosed or used for any purpose that prevents the parking of vehicles.
- H-4. No Obstruction.* No vehicle may be parked in a manner that interferes with ready access to any entrance to or exit from the Condominium. No vehicle may obstruct the flow of traffic, constitute a nuisance, or otherwise create a safety hazard on the Condominium. No vehicle may be parked, even temporarily, in spaces reserved for others, in fire lanes, or in any area designated as "No Parking."
- H-5. Nuisances.* Each vehicle shall be muffled and shall be maintained and operated to minimize noise, odor, and oil emissions. The use of car horns on the Condominium is discouraged. No vehicle may be kept on the Condominium property if the Board of Directors deems it to be unsightly, inoperable, inappropriate, or otherwise violative of these Rules.
- H-6. Violations.* Any vehicle in violation of these Rules may be stickered, wheel-locked, and towed or otherwise removed from the Condominium by the Board of Directors, at the expense of the vehicle's Owner. The Association expressly disclaims any liability for damage to vehicles on which the Association exercises these remedies for Rules violations.

I. TRASH DISPOSAL

- I-1. General Duty.* Residents shall not litter Common Elements, shall endeavor to keep the Condominium clean, and shall dispose of all refuse in receptacles provided specifically by the Association for that purpose.

- I-2. *Hazards.* Residents may not store trash inside or outside his or her Unit in a manner that encourages vermin, causes odors, or may permit the spread of fire. Before discarding coals, ashes, logs, or other materials used in barbecue grills or fireplaces, Residents shall ensure that the debris is thoroughly cold.
- I-3. *Excess Trash.* Residents shall place trash entirely within a dumpster or trash chute, and may not place trash outside, next to, or on top of a dumpster or a trash chute. If a dumpster is full, Residents should locate another dumpster or hold his or her trash. Boxes and large objects should be crushed or broken down before placed in a dumpster or a trash chute. Boxes and large objects which do not fit in a trash chute or which may potentially stop-up or damage the chute shall be placed outside of the chute in a designated area for trash pickup. Dumpster and trash chute doors are to be closed at all times when not in use.

J. PETS

- J-1. *Subject to Rules.* Residents may not keep or permit on the Condominium a pet or animal of any kind, at any time, except as permitted by these Rules and the Governing Documents.
- J-2. *Permitted Pets.* Subject to these Rules, a Resident may keep in his or her Unit not more than two housepets (two cats, or two dogs, or one cat and one dog). Permitted housepets include domesticated dogs, gentle in disposition, cats, caged birds, and aquarium fish. Permitted housepets also include specially trained animals that are certified to serve as physical aids to handicapped Residents, regardless of the animal's size or type.
- J-3. *Prohibited Animals.* No Resident may keep a dangerous or exotic animal, reptiles of any kind, pit bull terrier, trained attack dog, or any other animal deemed by the Board of Directors to be a potential hazard or threat to the well-being of people or other animals. No animal or housepet may be kept, bred, or maintained for a commercial

purpose.

- J-4. Indoors/Outdoors.* A permitted pet must be maintained inside the Unit, and may not be kept on patios or balconies. No pet is allowed on general Common Elements unless carried or leashed. No pet may be leashed to any stationary object on the Common Elements.
- J-5. Disturbance.* Pets shall be kept in a manner that does not disturb another Resident's rest or peaceful enjoyment of his or her Unit or the Common Elements. No pet shall be permitted to bark, howl, whine, screech, or make or cause other loud or unreasonable noises for extended or repeated periods of time.
- J-6. Damage.* Residents are responsible for any property damage, injury, or disturbance his or her pet may cause or inflict. Residents shall compensate any person injured by his or her pet. Any Resident who keeps a pet on the Condominium shall be deemed to have indemnified and agreed to hold harmless the Board of Directors, the Association, and other Owners and Residents, from any loss, claim, or liability of any kind or character whatever resulting from any action of his or her pet or arising by reason of keeping or maintaining such pet on the Condominium.
- J-7. Pooper Scooper.* No Resident may permit his or her pet to relieve itself on the Condominium, except in areas designated by the Board of Directors for this purpose. Residents are responsible for the removal of his or her pet's wastes from the Common Elements. The Board of Directors may levy a fine against a Unit and its Owner each time feces are discovered on the Common Elements or any unauthorized area of the Condominium and attributed to an animal in the custody of that Unit's Resident.
- J-8. Removal.* If a Resident or his or her pet violates these Rules or the community policies pertaining to pets, or if a pet causes or creates a nuisance, odor, unreasonable disturbance, or noise, the Resident or person having control of the animal shall be

given a written notice by the Board of Directors to correct the problem. If the problem is not corrected within the time specified in the notice (not less than 10 days), the Resident, upon written notice from the Board of Directors, may be required to remove the animal. Each Resident agrees to permanently remove his or her violating animal from the Condominium within 10 days after receipt of a removal notice from the Board of Directors.

K. MISCELLANEOUS

- K-1. Security.* The Association may, but shall not be obligated to, maintain or support certain activities within the Condominium designed to make the Condominium less attractive to intruders than it otherwise might be. The Association, its directors, committees, members, agents, and employees, shall not in any way be considered an insurer or guarantor of security within the Condominium, and shall not be held liable for any loss or damage by reason of failure to provide adequate security or ineffectiveness of security measures undertaken. Each Owner, Resident, guest, and invitee on the Condominium assumes all risk for loss or damage to his or her person, to his or her Unit, to the contents of his or her Unit, and to any other of his or her property on the Condominium. The Association expressly disclaims and disavows any and all representations or warranties, expressed or implied, including any warranty of merchantability or fitness for any particular purpose, relative to any security systems, equipment or measures recommended, installed or undertaken within the Condominium.
- K-2. Right to Hearing.* An Owner may request in writing a hearing by the Board of Directors regarding an alleged breach of these Rules by the Owner or a Resident of the Owner's Unit. The Board of Directors will schedule a hearing within 30 days of receiving the Owner's written request. At the hearing, the Board of Directors will consider the facts and circumstances surrounding the alleged violation. The Owner may attend the hearing in person, or may be represented by another person or written

communication.

- K-3. Mailing Address.* An Owner who receives mail at any address other than the address of his or her Unit shall be responsible for maintaining with the Association his or her current mailing address. Notifications of change of name or change of address should be clearly marked as such. All notices required to be sent to Owners by the Governing Documents shall be sent to an Owner's most recent address as shown on the records of the Association. If an Owner fails to provide a forwarding address, the address of that Owner's Unit shall be deemed effective for purposes of delivery.
- K-4. Revision.* These Rules are subject to being revised, replaced, or supplemented. Owners and Residents are urged to contact the management office to verify the rules currently in effect on any matter of interest. These Rules shall remain effective until 10 days after the Association mails notice of an amendment or revocation of these Rules to an Owner of each Unit.
- K-5. Other Rights.* These Rules are in addition to and shall in no way whatsoever detract from the rights of the Association or Owners under the Declaration, Bylaws, Articles of Incorporation, and the laws of the State of Texas.
- K-6. Effective Date.* These Rules are the initial Rules of Panama Historic Homeowners Association and shall become effective _____, 2005.