

**ARTICLES OF INCORPORATION
OF**

KBE-HOA, INC.

FILED
In the Office of the
Secretary of State of Texas

JAN 18 1994

Corporations Section

I, the undersigned natural person, qualified as an incorporator of a corporation under the Texas Non-Profit Corporation Act, Article 1396-1.01, et seq., as amended, Vernon's Annotated Texas Civil Statutes (the "Act"), do hereby adopt the following Articles of Incorporation for such corporation:

ARTICLE I

The name of the corporation is KBE-HOA, INC. (the "Association").

ARTICLE II

The Association is a non-profit corporation.

ARTICLE III

The duration of the Association is perpetual.

ARTICLE IV

The Association is organized for the following purposes:

(a) to provide for the maintenance, preservation, and architectural control of all property at any time annexed into and made subject to the Declaration of Restrictions, Covenants and Easements for Kahala Beach Estate, Addition No. 1, recorded under Film Code No. 009-21-0656 in the Official Records of Real Property of Galveston County, Texas, and all amendments and supplements thereto, and all annexation agreements recorded in connection therewith ("Declaration") and such other property as may affect the association's members, all in accordance with the terms of such Declaration;

(b) to promote the health, safety, and welfare of the owners and tenants within the property described above;

(c) to exercise the powers and privileges and to perform all of the duties and obligations of the Association as set forth in the Declaration, which Declaration is incorporated herein as if set forth at length herein;

(d) to fix, to levy, to collect, and to enforce payment by any lawful means all charges and assessments pursuant to the terms of the Declaration;

(e) to pay all expenses in connection with any collection or enforcement action, and all office and other expenses incident to the conduct of the business of the Association, including all licenses, taxes, or governmental charges levied or imposed against the property of the Association;

(f) to acquire (by gift, purchase or otherwise), to own, to hold, to improve, to build upon, to operate, to maintain, to convey, to sell, to lease, to transfer, to dedicate for public use, or otherwise dispose of real or personal property in connection with the affairs of the Association;

(g) to borrow money and to mortgage, to pledge, to deed in trust, or to hypothecate any or all of its real or personal property for borrowed money or debts incurred as may be permitted by the Declaration;

(h) to dedicate, to sell, or to transfer all or any part of the Common Area (as defined in the Declaration) to any

public agency, authority, or utility as may be permitted by the Declaration;

(i) to participate in mergers and consolidations with other non-profit corporations organized for the same or similar purposes and/or to annex additional property and Common Area as may be permitted by the Declaration;

(j) to enter into, to make, and to perform contracts of every kind and description and to do all things necessary to carry on and accomplish the purposes for which the Association is organized and chartered, including to have and to exercise any and all powers, rights and privileges conferred on corporations under the Texas Non-Profit Corporation Act now existing or as same may hereafter be amended.

ARTICLE V

Every person or entity who is a record owner of a fee simple or undivided fee simple interest in any lot or parcel of property which is subject by covenants of record to assessment by the Association, including contract sellers ("Owners"), will be a member of the Association. The foregoing is not intended to include persons or entities who hold an interest merely as security for the performance of an obligation. Memberships will be appurtenant to and may not be separated from the ownership of any lot or parcel which is so subject to assessment by the Association.

ARTICLE VI

The Corporation will have one (1) class of voting membership.

All Owners will be entitled to one (1) vote for each lot owned. When more than one person or entity holds an interest in any lot, then all such persons and/or entities will be members. The vote for such lot will be exercised as such persons and/or entities may determine among themselves, but in no event will more than one vote be cast with respect to any one lot.

ARTICLE VII

Cumulative voting is expressly denied.

ARTICLE VIII

The Association will have members as stated in Article VI. Its affairs will be managed by a Board of Directors.

ARTICLE IX

The Association will have no stock or shares.

ARTICLE X

The Association is formed strictly as a non-profit undertaking. The Association will be non-partisan, non-sectarian, and non-political. The Association is not organized for profit or personal gain and there will never be any dividend declared or paid from profits. All profits, if any, accruing or earned will be placed in a surplus fund to be used in furtherance of the non-profit objectives and purposes of the Association. The Association will use its assets only to accomplish the objectives and purposes specified in these Articles of Incorporation or in the Declaration, and no part of said funds will inure or be distributed to the members of the Board of Directors of the Association except in reasonable amounts for services rendered or expenses incurred. No

substantial part of the Association's activities will consist of carrying on propaganda or otherwise attempting to influence legislation and it shall not participate or intervene in (including the publishing or distributing of statements) any political campaign on behalf of or in opposition to any candidate for public office.

ARTICLE XI

The street address of the initial registered office of the Association is One Moody Plaza, 18th Floor, Galveston, Texas 77550, and the name of the initial registered agent at such address is Stephen G. Schulz.

ARTICLE XII

The Association's internal affairs will be governed by the Association's bylaws and the Declaration, as long as and to the extent such bylaws and Declaration are not inconsistent with these Articles of Incorporation or any laws of the State of Texas. The Association's bylaws will be adopted and may be amended from time to time by majority vote of the Board of Directors.

ARTICLE XII

The number of directors constituting the initial Board of Directors of the Association is five (5), which number may be subsequently changed by the bylaws. Directors need not be members of the Association. The names and addresses of the persons who are to serve as the initial directors until their successors are selected are as follows:

NAME:

ADDRESS

Bruce Reinhart

1828 Bayou Homes Drive
Galveston, Texas 77551

Debbie Reinhart

1828 Bayou Homes Drive
Galveston, Texas 77551

Stephen G. Schulz

One Moody Plaza, 18th Floor
Galveston, Texas 77550

At the first annual meeting, or special called meeting for the purpose of electing directors, the members shall elect three (3) directors for a term of three (3) years, and at each third annual meeting thereafter the members shall elect three (3) directors for a term of three (3) years.

ARTICLE XIV

The name and street address of the incorporator, who is a citizen of the State of Texas and is at least eighteen years old, is Stephen G. Schulz and his address is c/o Greer, Herz & Adams, One Moody Plaza, 18th Floor, Galveston, Texas 77550.

ARTICLE XV

The Association reserves the right to amend, to alter, to change, or to repeal any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by statute.

ARTICLE XVI

Section 1. Any person who at any time serves as director, officer, employee, or agent of the Association or of any other enterprise at the request of the Association and the heirs, executors, and administrators of such person will be indemnified by the Association to the maximum extent permitted by applicable law against all costs and expenses (including but not limited to counsel fees, amounts of judgments paid, and amounts paid in

settlement) reasonably incurred in connection with the defense of any actual or threatened claim, action, suit, or proceeding, whether of a civil, criminal, administrative, or other nature, in which he or she may be involved by virtue of such person being or having been such a director, officer, employee, or agent. The foregoing indemnification will not be deemed to be exclusive of any other rights to which those indemnified may be entitled under any agreement, vote of shareholders, or otherwise. Further, any person who at any time serves as a director of the Association or of any other enterprise at the request of the Association and the heirs, executors, and administrators of such person will not be liable to the Association or to the members of the Association for monetary damages for an act or omission in the director's capacity as a director.

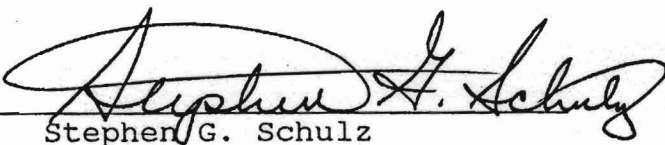
Section 2. The Association may purchase and maintain insurance on behalf of each person who holds or who has held any position referred to in Section 1 against any liability (i) incurred by such person in any such position or (ii) arising out of his or her status as such, whether or not the Association would have the power or option to indemnify such person against such liability under applicable law.

ARTICLE XVII

The Association may be dissolved with the assent given in writing and signed by not less than three-fourths (3/4th) of each class of members. Upon dissolution of the Association, other than incident to a merger or consolidation, the assets of the

Association shall be dedicated to an appropriate public agency to be used for purposes similar to those for which the Association was created. In the event such dedication is refused acceptance, such assets shall be granted, conveyed and assigned to any non-profit corporation, association, trust or other organization to be voted to such similar purposes.

IN WITNESS WHEREOF, I have hereunto set my hand this 14th day of January 1994.

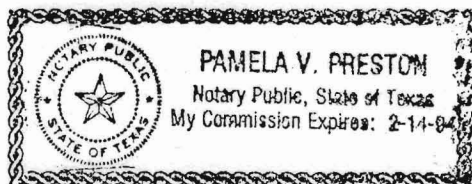

Stephen G. Schulz
Incorporator


STATE OF TEXAS

COUNTY OF GALVESTON

I, the undersigned, a Notary Public in the State of Texas, do hereby certify that on this 14th day of January, 1994, personally appeared before me Stephen G. Schulz, who, being by me first duly sworn, declared that she is the person who signed the foregoing document as incorporator and that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the date and year above written.




NOTARY PUBLIC in and for
the State of Texas
PAMELA V. PRESTON
Notary's Name Typed or Printed
My Commission Expires: 2-14-94