

BYLAWS
OF
KBE-HOA, INC.

ARTICLE I

NAME AND LOCATION

The name of the corporation is KBE-HOA, Inc., hereinafter referred to as the "Association". The principal office of the corporation shall be located at 8610 Seawall Blvd., Galveston, Texas 77554, but meetings of members and directors may be held at such places within the State of Texas as may be designated by the Board of Directors. All capitalized terms used in these Bylaws shall have the same meanings ascribed to them as set forth in the Declaration of Covenants, Conditions, Restrictions for Kahala Beach Estates, Addition No. 1, a subdivision in Galveston County, Texas, recorded under Film Code No. 009-21-0656 in the Official Records of Real Property of Galveston County, Texas, and all amendments, modifications and supplements thereto and all annexation agreements recorded in connection therewith ("Declaration").

ARTICLE II

BOARD OF DIRECTORS

Section 1. Number of Directors. The Association will be managed by a Board of Directors (the "Board") whose number is three (3) but which number may be increased or decreased from time to time by a resolution adopted by the affirmative vote of the Board. Directors need not be members of the Association. At the first annual meeting 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. However, in each case, the directors then serving will continue to serve until their successors are elected and qualify.

Section 2. Compensation. Directors will not receive any compensation for their services as officers or directors.

Section 3. General Powers and Duties of Directors. The directors will have general charge of the affairs, property, and assets of the Association. It will be the duty of the Board to carry out the goals and purposes of the Association and, to this end, to manage and to control all of its property and assets. In carrying out its duties the Board is authorized to elect officers and to employ or to arrange for the services of such other persons, including attorneys, agents, managers and assistants, as in their opinion are necessary or desirable for the proper administration of the Association and or its properties, and to pay reasonable compensation for such officers' and persons' services and expenses. The Board may also, from time to time, appoint and retain as advisors persons whose advice, assistance, or support may be deemed helpful in determining policies and formulating programs for carrying out the Association's purposes and pay the reasonable expenses thereof.

Section 4. Specific Powers. The Board of Directors shall specifically, but without limiting any general powers, have power to:

(a) adopt and publish rules and regulations governing the use of the Common Area and facilities, and the personal conduct of the Members and their guests thereon, and to establish penalties for the infraction thereof;

(b) suspend the voting rights of a member during any period in which such member shall be in default in the payment of any assessment levied by the Association. Such rights may also be suspended after notice and hearing for infraction of rules and regulations adopted by the Board;

(c) exercise for the Association all powers, duties and authority vested in or delegated to this Association and not reserved to the membership by other provisions of these By-Laws or the Articles of Incorporation, or the Declaration.

Section 5. Specific Duties. It shall be the duty of the Board of Directors to:

(a) cause to be kept a complete record of all its acts and corporate affairs;

(b) supervise all officers, agents and employees of this Association, and to see that their duties are properly performed;

(c) to carry out the duties more fully provided in the Declaration;

(d) issue, or to cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board before the issuance of these certificates. If a

certificate states an assessment has been paid, such certificate shall be conclusive evidence of such payment.

Section 6. Vacancies. Whenever a vacancy occurs in the Board by death, resignation, or increase in the number of directors of the Association, such vacancy or vacancies will be filled by a majority vote of the Board, even though the remaining directors may constitute less than a quorum. Each director, so elected, will hold office for the unexpired term of his predecessor in office.

Section 7. Removal. Any director may be removed from the Board for cause by a majority vote of the members of the Association at a meeting called for such purpose. In the event of removal of a director, his successor shall be selected by the remaining members of the Board and shall serve for the unexpired term of his predecessor.

ARTICLE III

MEETINGS OF BOARD OF DIRECTORS

Section 1. Annual Meeting. The annual meeting of the Board will be held annually on such day and date in January as determined by the Board and stated in notice to all directors, or at such other time as may be determined by the directors for the purpose of electing officers and for the transaction of such other business as may come before the meeting.

Section 2. Regular Meetings. Regular meetings of the Board will be held, if necessary, at such times as may be determined from time to time by the Board or by any officer of the Association and

preceded by notice sent to each director at least five (5) business days before the date scheduled for the meeting called.

Section 3. Special Meetings. Special meetings of the Board may be held at any time upon the call of the President, the Secretary, or any two directors of the Association. Notice will be sent by mail or facsimile to the last known address of each director at least three (3) days before the meeting. Oral notice may be substituted for such written notice if given not later than one (1) day before the meeting. Notices of such meeting may be waived in writing before or after such meeting and will be equivalent to the giving of notice. Attendance of a director at such meeting will also constitute a waiver of notice thereof, except where he attends for the announced purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Except as otherwise required by law, neither the business to be transacted at nor the purpose of any regular or special meeting of the directors need be specified in notice or waiver of notice of such meeting.

Section 4. Action Without a Meeting. Any action required or permitted by law, the Articles of Incorporation, or these Bylaws to be taken at a meeting of the Board may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all of the directors.

Section 5. Quorum and Determination of Majority Vote. A quorum for the transaction of business will consist of a majority of the number of directors. Unless otherwise required by law or

these Bylaws, all acts and determinations of the Board will require the affirmative vote of the directors present at any duly called and held meeting of the directors at which a quorum is present throughout, and the phrases "majority vote," "majority vote of the Board," and others describing or requiring action by the directors will be so construed. Every act or decision done or made or ratified by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as an act of the Board.

ARTICLE IV

OFFICERS

Section 1. Officers. The officers of the Board of Directors will be elected by the Board and will consist of a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers as the Board may from time to time designate, all of whom will hold office until their successors are elected and qualified. Two (2) or more offices may be held by the same person. All officers will be entitled to be paid or reimbursed for all costs and expenditures incurred in the Association's business. Officers shall serve one (1) year terms and shall be elected at the annual meeting of the Board.

Section 2. Vacancies. Whenever a vacancy occurs in any office by death, resignation, increase in the number of officers of the Board, or otherwise, the vacancy will be filled by the Board and the officer so elected will hold office until his successor is chosen and qualified.

Section 3. Removal. Any officer elected or appointed by the Board may be removed by the Board whenever in its judgment the best interests of the Association will be served thereby. The Board shall then elect the successor for such removed officer.

Section 4. President. It will be the duty of the President to preside at all meetings of the Board, to sign all deeds, conveyances, releases, and to be the chief executive officer of the Association.

Section 5. Vice Presidents. Any Vice President may perform the usual and customary duties that pertain to such officers (but no unusual or extraordinary duties or powers conferred by the directors upon the President) and, under the direction and subject to the control of the directors, such other duties as may be assigned to him.

Section 6. Secretary. It will be the duty of the Secretary to attend all meetings of the directors and to record correctly the proceedings of such meetings in a book suitable for that purpose. The person holding the office of the Secretary also will perform such other duties as may be assigned to him. The duties of the Secretary may also be performed by any Assistant Secretary.

Section 7. Treasurer. The Treasurer will keep and account for such monies of the Association as may be entrusted to his keeping. He will be prepared at all times to give information as to the condition of the Association. The person holding the office of Treasurer also will perform such other duties as may be assigned

to him. The duties of the Treasurer may also be performed by any Assistant Treasurer.

Section 8. Delegation of Authority. In the case of any absence of any officer of the Association or for any other reason that the directors may deem sufficient, the directors may delegate some or all of the powers or duties of such officer to any other officer or to any director, employee, or agent for whatever period of time seems desirable.

ARTICLE V

COMMITTEES

Section 1. Executive Committee. The Board may create an Executive Committee the members of which will be appointed by a majority vote of the Board to serve at the pleasure of the Board. Except as otherwise provided herein, the Executive Committee, during the intervals between the meetings of the directors, will possess and may exercise those powers of the directors specifically assigned to such Committee by the Board. A majority of the members of the Executive Committee present at any meeting will constitute a quorum. The Executive Committee will keep full records and accounts of its proceedings and transactions. All actions taken by the Executive Committee will be reported to the Board at its meeting next succeeding such action and will be subject to control, revision, and alteration by the Board. The Board shall have the power and authority to fill any vacancies in the Executive Committee from time to time.

Section 2. Other Committees. The Board may provide for such other standing or special committees, the members of each of which will be appointed by the Board and the Board may discontinue any such committee at its pleasure. Each such committee will have such powers and perform such duties, not inconsistent with the law, the Articles of Incorporation, the Declaration, or these Bylaws, as the directors may prescribe. Vacancies in such other committees will be filled by the Board or as the Board may provide.

ARTICLE VI

DECLARATION

Section 1. Incorporation by Reference. The Declaration of Restrictions, Covenants, Conditions and Easements for Kahala Beach Estates, Addition No. 1, a Subdivision in Galveston County, Texas, as filed under Film Code No. 009-21-0656 in the Official Records of Real Property of Galveston County, Texas, and as it may be from time to time amended, is hereby incorporated herein by reference, the same as if such document, as amended, were set out in full herein.

ARTICLE VII

MEMBERS

Section 1. Classes of Members. The Association shall have one (1) class of members. Each person or if more than one, all persons collectively, who constitute the Owner of lot or property shall be a Member.

Section 2. Voting Rights. Each Member shall have the right to cast the number of votes allocated to it in the Articles of

Incorporation and the Declaration for the purposes of voting on each matter submitted to a vote of the members.

Section 3. Transfer of Membership. Membership in this corporation is not transferrable or assignable, except as such transfer or assignment may be effectuated by a sale of the Lots, the ownership of which gave rise to the status and rights of Membership.

ARTICLE VIII

MEETINGS OF MEMBERS

Section 1. Annual Meetings of Members. The Members of the Association will meet in an annual meeting which will be held on such day and date and at such time in the month of January of each calendar year as is set forth in the notice of annual meeting sent to Members, or at such other time and date as the Board may determine and so notify the Members. The purpose of said annual meetings shall be to elect the Directors, and for the transaction of other business as may come before the members of that particular meeting. If the day fixed for any such annual meeting of Members falls on a legal holiday in the State of Texas, then such meeting will be held on the next succeeding business day. If the election of the directors is not held on the day designated for any annual meeting of Members, then the Association will cause the election to be held at a meeting of its Members as soon thereafter as a quorum can be present or represented.

Section 2. Special Meeting. Special meetings of the Members may be called by the President of the Association or by not less than one-fourth (1/4th) of the Members.

Section 3. Place of Meeting. The Board of Directors may designate any place, either within or without the State of Texas as a place of meeting for any annual meeting or for any special meeting called for Members. If no designation is made or if a special meeting be otherwise called, the place of meeting will be the registered office of the Association in the State of Texas; but if all the Members meet at any time and place, either within or without the State, and consent to the holding of a meeting, then such meeting will be valid, without call or notice, and at such meeting any action authorized to be taken by such Members may be taken.

Section 4. Notice of Meetings. Written or printed notice stating the place, day, and hour of any meeting of Members will be delivered, either personally or by mail, to each Member entitled to vote at such meeting, not less than ten (10) nor more than fifty (50) days before the date of such meeting, by or at the direction of the person or persons calling the meeting. In case of a special meeting or when required by statute or these by-laws, the purpose or purposes for which the meeting is called will be stated in the notice. If mailed, the notice of a meeting shall be deemed to be delivered when deposited in the United States Mail addressed to the Member at his, her or its address as it appears on the records of the Corporation, with postage thereon prepaid.

Section 5. Quorum. The Members of the Association holding ten percent (10%) of the votes which are eligible to be cast at any meeting of the Association will constitute a quorum at such meeting. If a quorum is not present at any meeting of such Members, the Members present who are eligible to vote shall adjourn the meeting from time to time without further notice.

Section 6. Proxies. At any meeting of Members, a Member entitled to vote may vote by proxy executed in writing by the Member or by his duly authorized attorney-in-fact. No proxy will be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Section 7. Voting by Mail. Where directors are to be elected, such election may be conducted by mail in such manner as the Board of Directors shall determine.

Section 8. Authority of Members. Each Member entitled to vote in accordance with the Declaration or these Bylaws has the power to cast the authorized number of votes as set forth in the Articles of Incorporation to elect directors.

ARTICLE IX

CONTRACTS, CHECKS, DEPOSITS, AND FUNDS

Section 1. Contracts. The Board may authorize any officer or officers, agent or agents of the Association, in addition to the officers so authorized by these bylaws, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Association. Such authority may be general or confined to specific instances.

Section 2. Checks and Drafts. All checks, drafts, or orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Association will be signed by such officer or officers, agent or agents of the Association and in such manner as shall from time to time be determined by resolution of the Board.

Section 3. Deposits. All funds of the Association will be deposited from time to time to the credit of the Association in such banks, trust companies, or other depositories as the Board may from time to time select.

Section 4. Gifts. The Board may accept on behalf of the Association any contribution, gift, bequest, or devise for the general purposes or for any special purpose of the Association.

ARTICLE X

BOOKS AND RECORDS

Section 1. The Association or its designated agent will keep correct and complete books and records of account, also will keep minutes of the proceedings of its Board, and committees having any of the authority of the Board, and will keep at its registered or principal office a record giving the names and addresses of the Members. All books and records of the Corporation may be inspected by any Member or his agent or attorney for any proper purpose, upon prior notice, during normal business hours. Copies of the Declaration, these Bylaws and the Articles of Incorporation of the Association shall be available to be purchased by Members at a reasonable cost.

ARTICLE XI

RULES AND REGULATIONS

Section 1. At any meeting called for such purpose or at any regular annual meeting, the Board may promulgate rules and regulations for the use and maintenance of Lots and for the use of Common Areas, and for such other purposes as deemed necessary or desirable by the Board. Such rules and regulations will be enforceable by the Board as provided in the Declaration.

ARTICLE XII

SUPPORT SERVICES

Section 1. Manager. The Board, at its sole and absolute discretion, will have the authority to hire a managing agent ("Manager"), whose duties will be defined in a contract entered into by and between the Association and such Manager.

Section 2. Support Services. A Manager hired by the Association will have the authority expressly granted to it by contract and, in addition, unless otherwise provided in such contract, will have the authority, subject to approval of the Board, to hire individuals or business entities for any purposes for which the Corporation has responsibility, and, in addition, will have the authority to recommend for approval by the Board other individuals or business entities to carry out responsibilities of the Corporation on behalf of the Corporation.

ARTICLE XIII

REMEDIES

Section 1. Late Charges. In all instances in which an assessment provided for in the Declaration applicable to the Member's Lot is not paid within fifteen (15) days after the due date reflected on such notice of assessment, such Member shall be obligated to pay late charges, which will be billed against such delinquent Member in the amount of ten percent (10%) of the overdue balance of the assessment. This late charge will be reflected on the statement for assessments for the month next succeeding the month in which such late fee was incurred.

Section 2. Default and Termination of Membership. When any Member of any class shall be in default in the payment of assessments or in complying with the restrictions and provisions of the Declaration or the Rules and Regulations such members' voting rights shall be suspended until the member has cured all defaults.

ARTICLE XIV

OTHER TRANSACTIONS

Section 1. No contract or other transaction between the Association and one or more of its directors, officers, or Members or between the Association and another corporation, partnership, joint venture, trust or other enterprise of which one or more of the Association's directors, officers, or Members are security holders, members, officers, directors, or employees or in which they are otherwise interested, will be invalid solely because of this relationship or because of the presence of such director,

officer, or Member at any meeting authorizing the contract or transaction or his or her participation or vote in the meeting or authorization.

ARTICLE XV

AMENDMENTS

These Bylaws may be amended or repealed by the affirmative vote of a majority of the directors at any regular meeting of the directors or at any special meeting of the directors if notice of the proposed amendment or repeal is contained in the notice of such regular or special meeting.

ARTICLE XVI

FISCAL YEAR

The fiscal year of the Association will begin on the first day of January of each year.

ARTICLE XVII

SEAL

The seal of the Corporation will be in such form as will be adopted and approved from time to time by the directors. Such seal need not be affixed to or impressed upon any instrument or document in order for such instrument or document to be binding upon or to be considered to be the act of the Association.

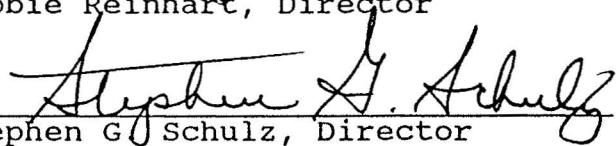
IN WITNESS WHEREOF, THE UNDERSIGNED DIRECTORS OF KBE-HOA, INC.
HAVE AFFIXED THEIR NAMES HERETO THIS THE 25TH DAY OF JANUARY, 1994.



Bruce Reinhart, Director



Debbie Reinhart, Director



Stephen G. Schulz, Director