

BY-LAWS
OF
THE PALMS OWNERS ASSOCIATION, INC.
(A Texas Non-Profit Corporation)

ARTICLE I

NAME

1.1 NAME. The name of the organization shall be THE PALMS OWNERS ASSOCIATION, INC., hereinafter called "Association".

ARTICLE II

PURPOSE AND OWNER OBLIGATION

2.1 PURPOSE. The purpose for which this non-profit Association is formed is to govern the Condominium Property situated in the County of Galveston, State of Texas, which Property is described on the attached Exhibit "A", which by this reference is made a part hereof, and which Property has been submitted to a Regime according to the provisions of the Condominium Act of the State of Texas.

2.2 OWNER OBLIGATION. All present or future owners, tenants, future tenants or any other person who might use the facilities of the Project in any manner, are subject to the regulations set forth in these By-Laws. The mere acquisition or rental of any of the Condominium Units (hereinafter referred to as "Units") of the project or the mere act of occupancy of any of said Units will signify that these By-Laws are accepted, ratified and will be

strictly followed.

ARTICLE III

DEFINITIONS AND TERMS

3.1 MEMBERSHIP. Any person on becoming an Owner of a Condominium Unit shall automatically become a Member of this Association and be subject to these By-Laws. Such membership shall terminate without any formal Association action whenever such person ceases to own a Condominium Unit. Such termination shall not relieve or release any such former Owner from any liability or obligation incurred under or in any way connected with THE PALMS CONDOMINIUMS during the period of such ownership and membership in this Association, or impair any rights or remedies which the Board of Directors of the Association or others may have against such former Owner and Member arising out of or in any way connected with such ownership and membership and the covenants and obligations incident thereto. No certificate of stock shall be issued by the Association, but the Board of Directors, if it so elects, may issue one (1) Membership Card per Unit to the Owner(s) of a Condominium Unit. Such Membership Card shall be surrendered to the Secretary whenever ownership of the Condominium Unit designated thereon is terminated.

3.2 VOTING. Unit ownership shall entitle the Owner(s) to cast one (1) vote per Unit in the affairs of the Association, which vote will be weighted to equal the proportionate share of

ownership of the Unit Owner in the Common Elements. Voting shall not be split among more than one (1) Unit Owner. The present number of votes that can be cast by the Unit Owners is forty-eight (48). The combined weighted votes calculated in accordance with Exhibit "C" to the Condominium Declaration for THE PALMS CONDOMINIUMS shall equal one hundred percent (100%).

3.3 MAJORITY OF UNIT OWNERS. As used in these By-Laws the term "majority of Unit Owners" shall mean those Owners who own fifty-one percent (51%) of the interest in the condominium regime.

3.4 QUORUM. Except as otherwise provided in these By-Laws, the presence in person or by proxy of a "majority of Unit Owners" as defined in Paragraph 3.3 of this Article shall constitute a quorum.

3.5 PROXIES. Votes may be cast in person or by proxy. Proxies must be filed with the Secretary before the appointed time of each meeting.

ARTICLE IV

ADMINISTRATION

4.1 ASSOCIATION RESPONSIBILITIES. The Owners of the Units will constitute the Association of Unit Owners, hereinafter referred to as "Association", who will have the responsibility of administering the Condominium Project through a Board of Directors.

4.2 PLACE OF MEETINGS. All annual and special meetings of the Association shall be held at the principal office of the

Association or at such other suitable and convenient place as may be permitted by law and from time to time fixed by the Directors and designated in the notices of such meetings.

4.3 ANNUAL MEETINGS. Annual meetings shall be held the _____ of _____ each year.

4.4 SPECIAL MEETINGS. It shall be the duty of the President to call a special meeting of the Owners as directed by resolution of the Board of Directors or upon a petition signed by at least one-tenth (1/10) of the Owners and presented to the Secretary. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice unless by consent of four-fifths (4/5ths) of the Owners present, either in person or by proxy.

4.5 NOTICE OF MEETINGS. The Secretary shall mail notices of annual and special meetings to each Member of the Association, directed to his last known post office address, as shown on the records of the Association, by uncertified mail, postage prepaid. Such notice shall be mailed not less than ten (10) days nor more than twenty (20) days before the date of such meeting and shall state the date, time and place of the meeting and purpose or purposes thereof. In lieu of mailing notice as herein provided, such notice may be delivered by hand or left at his residence in his absence. If requested, any Mortgagee of record or its designee

may be entitled to receive similar notice.

4.6 ADJOURNED MEETING. If any meeting of Owners cannot be organized because a quorum has not attended, the Owners who are present, either in person or by proxy, may adjourn the meeting from time to time until a quorum is attained. Thereafter, the presence in person or by proxy of the Owners who own forty percent (40%) of the interest in the condominium regime shall constitute a quorum at such meeting.

4.7 DURATION OF QUORUM. The Owners present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Owners to have less than a quorum.

4.8 ORDER OF BUSINESS. The order of business at all meetings of the Owners of Units shall be as follows:

- a. Roll call.
- b. Proof of notice of meeting or waiver of notice.
- c. Reading of minutes of preceding meeting.
- d. Reports of officers.
- e. Reports of committees.
- f. Election of Directors.
- g. Unfinished business.
- h. New business.

ARTICLE V

BOARD OF DIRECTORS

5.1 NUMBER. The affairs of this Association shall be governed by a Board of Directors composed of five (5) persons.

5.2 POWERS AND DUTIES. The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association and for the operation and maintenance of a residential Condominium Project. The Board of Directors may do all such acts and things that are not by these By-Laws or by the Condominium Declaration for THE PALMS CONDOMINIUMS directed to be exercised and done by the Owners.

5.3 OTHER POWERS AND DUTIES. The Board of Directors shall have the following duties:

a. To administer and enforce the covenants, conditions, restrictions, uses, limitations, obligations and all other provisions set forth in the Condominium Declaration.

b. To establish, make and enforce compliance with rules necessary for the orderly operation, use and occupancy of this Condominium Project. (A copy of such rules and regulation shall be delivered or mailed to each Member promptly upon the adoption thereof.)

c. To keep in good order, condition and repair all of the General and Limited Common Elements and all items of personal property used in the enjoyment of the entire Premises.

d. To insure and keep insured all of the insurable Common Elements of the Property in an amount equal to their maximum replacement value, as provided in the Declaration. Further to obtain and maintain comprehensive liability insurance covering the entire Premises in amounts not less than One Hundred Thousand Dollars (\$100,000.00) per person. Three Hundred Thousand Dollars (\$300,000.00) per accident and Fifty Thousand Dollars (\$50,000.00) property damages, plus a One Million Dollar (\$1,000,000.00) umbrella policy. To insure and keep insured all the fixtures, equipment and personal property acquired by the Association for the benefit of the Association, the Owners of the Condominium Units and their First Mortgagees.

e. To fix, determine, levy and collect the monthly prorated assessments to be paid by each of the Owners; and by majority vote of the Board to adjust, decrease or increase the amount of the monthly assessments subject to provisions of the Declaration; to levy and collect special assessments in order to meet increased operating or maintenance expenses or costs, and additional capital expenses. All monthly or other assessments shall be in itemized statement form and shall set forth in detail the various expenses for which the assessments are being made.

f. To collect delinquent assessments by suit or otherwise and to enjoin or seek damages from an Owner, as provided in the Declaration and these By-Laws.

g. To protect and defend the entire Premises from loss and damage by suit or otherwise.

h. To borrow funds in order to pay for any required expenditure or outlay; to execute all such instruments evidencing such indebtedness which shall be the several obligations of all of the Owners in the same proportion as their interest in the Common Elements.

i. To enter into contracts within the scope of their duties and power.

j. To establish a bank account for the common treasury for all separate funds which are required or may be deemed advisable by the Board of Directors.

k. To keep and maintain full and accurate books and records showing all of the receipts, expenses or disbursements and to permit examination thereof at any reasonable time by each of the Owners and any First Mortgagee of a Unit, and to cause a complete audit of the books and accounts by a competent accountant, once each year. The Association shall cause to be prepared and delivered annually to each Owner an audited statement showing all receipts, expenses or disbursements since

the last such statement. Such audited financial statements shall be available to any First Mortgagee of a Unit, on request, within ninety (90) days following the fiscal year end of the Project.

l. To meet at least once each quarter.

m. To designate the personnel necessary for the maintenance and operation of the General and Limited Common Elements.

n. In general, to carry on the administration of this Association and to do all of those things, necessary and reasonable, in order to carry out the communal aspect of Condominium ownership.

5.4 ELECTION AND TERM OF OFFICE. At the expiration of the term of office of each Director, his successor shall be elected to serve a term of three (3) years. The persons acting as Directors shall hold office until their successors have been elected and hold their first (1st) meeting.

5.5 VACANCIES. Vacancies on the Board of Directors caused by any reason other than the removal of a Director by a vote of the Association shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum. Each Director so elected shall serve out the remaining term of his predecessor.

5.6 REMOVAL OF DIRECTORS. At any regular or special meeting

duly called, any one (1) or more of the Directors may be removed with or without cause by a majority of the Owners, and a successor may then and there be elected to fill the vacancy thus created. Any Director whose removal has been proposed by the Owners shall be given an opportunity to be heard at the meeting.

5.7 ORGANIZATION MEETING. The first (1st) meeting of a newly elected Board of Directors shall be held within ten (10) days of election at such place as shall be fixed by the Directors at the meeting at which such Directors were elected, and no notice shall be necessary to the newly elected Directors in order legally to constitute such meeting, providing a majority of the whole Board shall be present.

5.8 REGULAR MEETINGS. Regular meetings of the board of Directors may be held at such time and place as shall be determined, from time to time, by a majority of the Directors, but at least four (4) such meetings shall be held during each fiscal year. Notice of regular meetings of the Board of Directors shall be given to each Director, personally, by mail, telephone or telegraph, at least three (3) days prior to the day named for such meeting.

5.9 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the President or Secretary, or upon the written request of at least two (2) Directors. The President or Secretary will give three (3) days' personal notice to each Director by mail, telephone or telegraph, which notice shall state

the time, place (as hereinabove provided) and purpose of the meeting.

5.10 WAIVER OF NOTICE. Before or at any meeting of the Board of Directors, any Director may in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board shall be a waiver of notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

5.11 BOARD OF DIRECTOR'S 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, at any meeting of the Board of Directors, there is less than a quorum present, the majority of those present may adjourn the meeting from time to time. At any such adjourned meeting, any business which might have been transacted at the meeting, as originally called, may be transacted without additional notice.

5.12 FIDELITY BONDS. The Board of Directors shall require that all officers and employees of the Association handling or responsible for Association funds shall furnish adequate fidelity bonds. The premium on such bonds shall be paid by the Association.

ARTICLE VI

OFFICERS

6.1 DESIGNATION. The officers of the Association shall be a President, Vice President, Secretary and Treasurer, all of whom shall be elected by the Board of Directors.

6.2 ELECTION OF OFFICERS. The officers of the Association shall be elected annually by the Board of Directors at the organization meeting of each new Board and shall hold office at the pleasure of the Board.

6.3 REMOVAL OF OFFICERS. Upon an affirmative vote of a majority of the members of the Board of Directors, any officer may be removed, either with or without cause, and his successor may be elected at any regular meeting of the Board of Directors or at any special meeting of the Board called for such purpose.

6.4 PRESIDENT. The President shall be the chief executive officer of the Association. He shall preside at all meetings of both the Association and the Board of Directors. He shall have all the general powers and duties which are usually vested in the office of president of an association, including, but not limited to, the power to appoint committees from among the Owners to assist in the administration of the affairs of the Association. He shall co-sign all promissory notes with the Secretary and co-sign all checks with the Treasurer. The President, or his designated alternate, shall represent the Association at all meetings of THE

PALMS OWNERS ASSOCIATION, INC.

6.5 VICE PRESIDENT. The Vice President shall perform all of the duties of the President in his absence and such other duties as may be required of him from time to time by the Board of Directors.

6.6 SECRETARY.

a. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the Association. He shall have charge of such books and papers as the Board of Directors may direct and shall co-sign all instruments of conveyance; and he shall, in general, perform all the duties incident to the office of the Secretary.

b. The Secretary shall compile and keep up to date at the principal office of the Association a complete list of Members and their last known addresses as shown on the records of the Association. Such list shall show opposite each Member's name, the number of Members living in the Unit, the covered parking space, and storage space assigned for use in connection with such Unit. Such list shall be open to inspection by Members and other persons lawfully entitled to inspect the same at reasonable times during regular business hours.

6.7 TREASURER. The Treasurer shall receive and deposit in appropriate bank accounts all money of the Association and shall

disburse such as directed by resolution of the Board of Directors; provided, however, that a resolution of the Board of Directors shall not be necessary for disbursements made in the ordinary course of business conducted within the limits of a budget adopted by the Board of Directors, including authority to: co-sign all checks; keep proper books of account; cause an annual statement of the Association's books to be made at the completion of each fiscal year; prepare an annual budget and a statement of income expenditures to be presented to the Membership at its regular annual meeting, and deliver a copy of each to the Members; and perform all other duties assigned to him by the Board of Directors.

ARTICLE VII

MANAGEMENT CONTRACT

7.1 MANAGEMENT COMPANY. The Board of Directors may enter into a management agreement with a management company at a rate of compensation agreed upon by the Board of Directors. In accordance with the Declaration and these By-Laws, the management company shall have, but shall not be limited to, the following functions, duties and responsibilities:

a. Fiscal Management.

(1) Prepare annual operating budget detailed to reflect expected operation for each month. This budget is established to show expected recurring receipts and operating disbursements. It is further used for comparison with actual

monthly income and expenditures.

(2) Prepare five (5)-year sinking fund reserve budget projection for capital expenditures on items recurring only periodically, i.e., painting, etc., for Common Elements.

(3) Prepare monthly operating and cash position statements and statements concerning sinking fund reserve accounts.

(4) Analyze and compare operating receipts and disbursements against the Board-approved budget. Where a significant variation is shown (10% above or below the budgeted amount), prepare explanations of variations from budgeted figures. Suggest corrective recommendations, if applicable.

(5) Collect maintenance fees and special assessments; deposit them in checking, savings or other income producing accounts on behalf of the Board and maintain comprehensive records thereof. Establish individual checking and sinking fund reserve accounts, as directed by the Board.

(6) Mail notices of delinquency to any Owner in arrears, and exert reasonable effort to collect delinquent accounts.

(7) Examine all expense invoices for accuracy and pay all bills in accordance with the terms of the property management agreement.

(8) Prepare year-end statement of operations for Owners.

b. Physical Management.

(1) Assume full responsibility for maintenance and control of Common Area improvements and equipment. Maintain the Property in constant repair to reflect Owner pride and to insure high property values in accordance with the provisions of the operating budget, as approved by the Board of Directors.

(2) Enter into contracts and supervise services for lawn care, refuse hauling, pump maintenance, etc., as approved operating budgets.

(3) Select, train and supervise competent personnel, as directed by the Board.

(4) Compile, assemble and analyze data; and prepare specifications and call for bids for major improvement projects. Analyze and compare bids, issue contracts and coordinate the work; maintain close and constant inspection to insure that work is performed according to specifications.

(5) Perform any other projects with diligence and economy in the Board's best interests.

c. Administrative Management.

(1) Inspect contractual services for satisfactory performance. Prepare any necessary compliance letters to Vendors.

(2) Obtain and analyze bids for insurance coverage

specified in By-Laws, recommend modifications or additional coverage. Prepare claims when required and follow up on payment; act as Board's representative in negotiating settlement.

(3) Exercise close liaison and supervision over all personnel to insure proper operational maintenance and to promote good Management-Resident-Owner relationships.

(4) Act as liaison for the Association in any negotiations or disputes with local, federal or state taxing agencies or regulatory bodies.

(5) Exercise close supervision over hours and working conditions of employed personnel to insure compliance with Wage and Hour and Workman's Compensation Laws.

(6) Assist in resolving individual Owner's problems as they pertain to the Association, Common Elements and governing rules and regulations.

(7) Represent an absentee Owner when required.

(8) Administer the Condominium Project in such a way as to promote a pleasant and harmonious relationship within the complex for all Owners, Residents and Tenants alike.

ARTICLE VIII

INDEMNIFICATION OF OFFICERS AND DIRECTORS

8.1 INDEMNIFICATION. The Association shall indemnify every

Director or officer, his heirs, executors and administrators, against all loss, cost and expense, including counsel fees, reasonably incurred by him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a Director or officer of the Association, except in matters of gross negligence or willful misconduct. In the event of a settlement, indemnification shall be provided only in connection with such matters in which the Association is advised by counsel that the person to be indemnified has not been guilty of gross negligence or willful misconduct in the performance of his duty as such Director or officer in relation to the matter involved. The foregoing rights shall not be exclusive of other rights to which such Director or officer may be entitled. All liability, loss, damage, cost and expense incurred or suffered by the Association in connection with the foregoing indemnification provision shall be treated and handled by the Association as Common Expenses; provided, however, nothing contained in this Article VIII shall be deemed to obligate the Association to indemnify any Member or Owner of a Condominium Unit, who is or has been a Director or officer of the Association, with respect to any duties or obligations assumed or liabilities incurred by him under and by virtue of the Condominium Declaration for THE PALMS CONDOMINIUMS as a Member or Owner of a Condominium Unit covered thereby.

ARTICLE IX

OBLIGATIONS OF THE OWNERS

9.1 ASSESSMENTS. All Owners shall be obligated to pay the monthly assessments imposed by the Association to meet the Common Expenses as defined in the Declaration. The assessments shall be made pro rata according to the proportionate share of the Unit Owner in and to the Common Elements and shall be due monthly in advance. A Member shall be deemed to be in good standing and entitled to vote at any annual or special meeting of Members, within the meaning of these By-Laws, only if he is current in the assessments made or levied against him and the Condominium Unit owned by him.

9.2 GENERAL.

a. Each Owner shall comply strictly with the provisions of the Condominium Declaration for THE PALMS CONDOMINIUMS.

b. Each Owner shall always endeavor to observe and promote the cooperative purposes for which the Project was built.

9.3 USE OF GENERAL COMMON ELEMENTS AND LIMITED COMMON ELEMENTS. Each Owner may use the General Common Elements and the Limited Common Elements in accordance with the purpose for which they were intended.

9.4 DESTRUCTION OR OBSOLESCENCE. Each Owner shall, if necessary, execute a power of attorney in favor of the Association,

irrevocably appointing the Association his Attorney In Fact to deal with the Owner's Condominium Unit upon its destruction, obsolescence or condemnation, as is provided in Paragraph 6.1 of the Condominium Declaration.

ARTICLE X

AMENDMENTS

10.1 BY-LAWS. These By-Laws may be amended by the Association at a duly constituted meeting for such purpose, and no amendment shall take effect unless approved by Owners representing at least fifty-one percent (51%) of the aggregate interest of the undivided Ownership of the Common Elements except for those amendments provided for in Article VIII of the Declaration, which shall require the approval of Owners and Mortgagees as provided therein. In no event shall the By-Laws be amended to conflict with the Declaration. In the event of a conflict between the two (2) documents, the Declaration shall control.

ARTICLE XI

MORTGAGES

11.1 NOTICE TO ASSOCIATION. An Owner who mortgages his Unit shall notify the Association through the President of the Association giving the name and address of his Mortgagee. The association shall maintain such information in a book entitled "Mortgagees of Condominium Units".

11.2 NOTICE OF UNPAID ASSESSMENTS. The Association shall, at the request of a Mortgagee of a Unit, report any unpaid assessments due from the Owner of such Unit.

ARTICLE XII

COMPLIANCE

12.1 LEGAL REQUIREMENTS. These By-Laws are set forth to comply with the requirements of the State of Texas Condominium Act. If any of these By-Laws conflict with the provisions of said statute, it is hereby agreed and accepted that the provisions of the statute will apply.

ARTICLE XIII

NON-PROFIT ASSOCIATION

13.1 NON-PROFIT PURPOSE. This Association is not organized for profit. No Unit Owner, Member of the Board of Directors or person from whom the Association may receive any property or funds shall receive or shall be lawfully entitled to receive any pecuniary profit from the operation thereof, and in no event shall any part of the funds or assets of the Association be paid as a salary or as compensation to, or distributed to or inure to the benefit of any Member of the Board of Directors; provided, however, always (1) that reasonable compensation may be paid to any Member while acting as an agent or employee of the Association for services

rendered in effecting one [1] or more of the purposes of the Association, and (2) that any Member of the Board of Directors may, from time to time, be reimbursed for his actual and reasonable expenses incurred in connection with the administration of the affairs of the Association.

003-07-0740

8423815

CONDOMINIUM DECLARATION

FOR

THE PALMS CONDOMINIUMS

Galveston County, Texas

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FOR THE DECLARATION OF
THE PALMS CONDOMINIUMS

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CONDOMINIUM DECLARATION

063-07-0744

FOR

THE PALMS CONDOMINIUMS

THE STATE OF TEXAS §

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF CALVESTON §

THAT, WHEREAS LAS PALMAS, INC., a Texas corporation, having its principal office at 7312 Seawall Boulevard, Galveston, Texas, 77551, hereinafter called "Declarant", is the Owner of certain real property situated in the County of Galveston, State of Texas, being described more fully on Exhibit "A", which by this reference is made a part hereof; and

WHEREAS, Declarant desires to establish a Condominium Regime under the Condominium Act of the State of Texas, Article 1301a, Revised Civil Statutes of Texas, herein called the "Act"; and

WHEREAS, Declarant has prepared plans for the construction of two (2) multifamily Buildings and other improvements appurtenant thereto on the Property described in said Exhibit "A", which when completed shall consist of forty-eight (48) separately designated Condominium Units and which will be known as THE PALMS CONDOMINIUMS; and

WHEREAS, Declarant does hereby establish a plan for the individual ownership in fee simple of estates consisting of the area or space contained in each of the Units, herein called the "Condominium Regime", in the two (2) Buildings and the co-ownership by the individual and separate Unit Owners thereof, as tenants in common, of all the remaining property, which includes both Limited Common Elements and General Common Elements, as hereinafter defined in Paragraph 1.1 hereof, and which are hereinafter collectively referred to as the "Common Elements" or "Common Areas".

NOW, THEREFORE, Declarant does hereby submit the real property described on the attached Exhibit "A", and all improvements thereon, to the provisions of the Act and the Condominium Regime, and does hereby publish and declare that the following terms, covenants, conditions, easements, restrictions, uses, limitations and obligations shall be deemed to run with the land and shall be a burden and a benefit to Declarant, its successors and assigns and to any person acquiring or owning an interest in the real property and improvements, their grantees, successors, heirs, executors, administrators, devisees and assigns.

ARTICLE 1

003-07-0745

DEFINITIONS AND TERMS

1.1 DEFINITIONS OF TERMS. As used in this agreement, the following terms shall have the following meanings unless the context shall expressly provide otherwise:

a. "Board" or "Board of Directors" shall refer to the Board of Directors of THE PALMS OWNERS ASSOCIATION, INC.

b. "Common Assessment" means the charge against each Unit Owner and his Unit, representing a portion of the total costs to the Association of maintaining, improving, repairing, replacing, managing and operating the Property, which are to be paid uniformly by each Unit Owner of the Association, as provided in Paragraph 5.4a herein. This shall also include charges assessed against each Unit Owner to maintain a reserve for replacement fund and to cover costs incurred by the Association to participate in any condemnation suit, as provided in Paragraph 6.3 hereof.

c. "Common Elements" means and includes all of the Property described in Exhibit "A", and all of the improvements thereto and thereon located, excepting all Units. Common Elements shall consist of the General Common Elements and the Limited Common Elements.

d. "Common Expenses" means and includes:

(1) All sums lawfully assessed against the Common Elements by the Managing Agent or Board;

(2) All expenses of administration and management, maintenance, operation, repair and replacement of and addition to the Common Elements (including unpaid special assessments);

(3) Expenses agreed upon as Common Expenses by the Unit Owners; and

(4) Expenses declared to be Common Expenses by this Declaration or by the By-Laws.

e. "Completed Unit" means a completely finished Unit, including, but not limited to, the installation of all appliances and utilities, rendering it ready for occupancy by an Owner other than the Declarant.

f. "Condominium Owners Association" or "Association" means THE PALMS OWNERS ASSOCIATION, INC., a Texas non-profit corporation, the By-Laws of which shall govern the administration of this Condominium Property and the membership of which shall be composed of all the Owners of the Condominium Units according to such By-Laws.

g. "Condominium Unit" shall mean an individual Unit together with the interest in the Common Elements (General and Limited) appurtenant to such Unit.

h. "Construction Period" means that period of time during which Declarant is developing the Premises and selling the Condominium Units, which time period shall extend from the date hereof until such time as the Declarant transfers title to all of the Condominium Units.

i. "Declarant" shall mean LAS PALMAS, INC., a Texas corporation, or its successors or assigns, who is developing the Property as a condominium.

j. "Declaration" shall mean this Condominium Declaration instrument.

k. "General Common Elements" means a part of the Common Elements and includes:

(1) The real property described in Exhibit "A" attached hereto, less and except the Units;

(2) All foundations, bearing walls and columns, roofs, halls, lobbies, stairways and entrances and exits or communicationways;

(3) All basements, roofs, yards and gardens, except as otherwise herein provided or stipulated;

(4) All premises for the lodging of janitors or persons in charge of the Buildings, except as otherwise herein provided or stipulated;

(5) All compartments or installations of central services, such as power, light, gas, cold and hot water, refrigeration, central air conditioning and central heating reservoirs, water tanks and pumps, cabana, gazebo, hot tub, jacuzzi, barbecue area, and the like;

(6) All elevators and shafts, garbage incinerators and, in general, all devices or installations existing for common use; and

(7) Unassigned parking spaces;

(8) All other elements of the Buildings desirably or rationally of common use or necessary to the existence, upkeep and safety of the Condominium Regime established by this Declaration.

1. "Lienholder" and "First Mortgagee" shall mean the holder of a first mortgage lien on any Unit in the Condominium Project.

a. "Limited Common Elements" means and includes those Common Elements which are reserved for the exclusive use of an individual Owner of a Unit or a certain number of individual Owners of Units, for the exclusive use of those Owners, which may include:

(1) "Air handlers", pipes, ducts, electrical wiring and conduits located entirely within a Unit or adjoining Units and serving only such Unit or Units, and such portions of the perimeter walls, floors and ceilings, doors, vestibules, windows, entryways, and all associated fixtures and structures therein, and patio and/or balcony structures as lie outside the Unit boundaries; and

(2) Covered parking spaces designated as an appurtenance to a Unit; and

(3) Separate storage area designated as an appurtenance to a Unit.

b. "Majority of Unit Owners" means those Owners with fifty-one percent (51%) of the votes entitled to be cast, as weighted as herein provided.

c. "Occupant" means a person or persons in possession of a Unit, regardless of whether said person is a Unit Owner.

d. "Owner" means a person, firm, corporation, partnership, association, trust or other legal entity or any combination thereof, who owns, of record, title to one (1) or more Condominium Units.

e. "Plat", "Survey Map", "Map" and "Plans" mean or include the engineering survey of the land, locating thereon all of the improvements, the floor plans and any other drawing or diagrammatic plan depicting a part of, or all of, the improvements, same being

herewith filed, labeled Exhibit "B" and incorporated herein. It is expressly agreed and each and every Purchaser of a Unit, his heirs, executors, administrators, assigns and grantees hereby agree that the square footage, size and dimensions of each Unit as set out or shown in this Declaration or in the survey Plans exhibited hereto are approximate and are shown for descriptive purposes only. The Declarant does not warrant, guarantee or represent that any Unit actually contains the area, square footage or dimensions shown by the Plat thereof. Each Purchaser and Owner of a Unit or interest therein agrees that the Unit has been or will be purchased as actually and physically existing at the time such purchase is closed. Each Purchaser of a Unit expressly waives any claim or demand which he may have against the Declarant or any person whomsoever on account of any difference, shortage or discrepancy between the Unit as actually and physically existing and as it is shown on the respective Plat thereof exhibited hereto. It is specifically agreed that in interpreting deeds, mortgages, deeds of trust and other instruments for any purposes whatsoever or in connection with any matter, the existing physical boundaries of the Unit shall be conclusively presumed to be the boundaries regardless of settling, rising or lateral movements of the Building, and regardless of variances between boundaries as shown on the Plat and those of the Buildings.

r. "Premises", "Project", or "Property" means and includes the land, the Buildings and all improvements and structures thereon and all rights, easements and appurtenances belonging thereto.

s. "Special Assessments". In addition to the common assessments described above, the Association may levy, in any assessment year, a special assessment applicable to that year only for the purpose of deferring, in whole or in part:

(1) The cost of any construction, reconstruction, repair or replacement of a capital improvement upon the Common Area, including fixtures and personal property related thereto; or

(2) The expense of any other contingencies or unbudgeted costs; provided that any such assessment shall

have the assent of two-thirds (2/3) of the votes of the Members who are voting in person or by proxy at a meeting duly called for this purpose. Any amounts assessed pursuant hereto shall be assessed to Owners in proportion to the interest in the Common Elements owned by each. The Association, after due notice and hearing, shall also have the authority to establish and fix a special assessment upon any Unit to secure the liability of the Owner of such Unit to the Association for any breach by such Owner of any of the provisions of this Declaration, which breach shall require an expenditure by the Association for repair or remedy. Special assessments may be billed or collected on a monthly basis. The above mentioned liability of any Owner is to be established as set forth in this Declaration.

t. "Unit" shall mean the elements of an individual Condominium Unit which are not owned in common with the Owners of the other Condominium Units in the Project as shown on the Maps, which are exhibits attached hereto, and each Unit shall include the air space assigned thereto. The boundaries of each such Unit shall be and are the interior surfaces of the perimeter walls, floors, ceilings, window frames, doors, door frames and trim, and exterior surfaces of the patios and balconies; and the space includes both the portions of the Building so described and the air space so encompassed, excepting the Common elements. In interpreting deeds, mortgages, deeds of trust and other instruments, the existing physical boundaries of the Unit reconstructed in substantial accordance with the original plans thereof shall be conclusively presumed to be its boundaries, regardless of settling, rising or lateral movement of the Building and regardless of variances between boundaries shown on the Plat and those of the Building. The individual ownership of each Unit space herein defined shall further include the interior construction, partitions, appliances, fixtures and improvements which are intended to exclusively serve such Unit space, such as interior room walls, floor coverings or finish, closets, cabinets, shelving, individual bathroom and kitchen

fixtures, plumbing and appliances, individual lighting and electric fixtures and other separate items or chattels belonging exclusively to such Unit, any of which may be removed, replaced, disposed of or otherwise treated without affecting any other Unit space or ownership, use or enjoyment thereof. None of the land in this Project on which any Unit space or porch space is located shall be separately owned, as all land in this Project shall constitute part of the "Common Elements" of the Property as herein defined, and shall be owned in common by the Owners of the Units in this Condominium Project. It is intended the term "Unit", as used in this Declaration, shall have the same meaning as the term "Apartment" as used in the Act.

ARTICLE II

CONDOMINIUM UNIT DESIGNATIONS AND DESCRIPTIONS

2.1 RECORDATION OF PLAT. The Plat shall be filed for record simultaneously with the recording of this Declaration as a part hereof, and prior to the first conveyance of any Condominium Unit. Such Plat consists of and sets forth:

- a. The legal description of the surface of the land;
- b. The linear measurements and location, with reference to the exterior boundaries of the land, of the Buildings and all other improvements constructed, or to be constructed, on said land by Declarant;
- c. The exterior boundaries and number of each Unit, expressing its square footage, and any other data necessary for its identification, which information will be depicted by a Plat of such floor of each Building showing the letter of the Building, the number of the floor and the number of the Unit; and
- d. The location of the Limited Common Elements.

2.2 DESIGNATION OF UNITS. The Property is hereby divided into forty-eight (48) separately designated Units contained within the two (2) Buildings. Each Unit is identified by number and each Building is identified by letter on the map. The remaining portion of the Premises, referred to as the Common Elements, shall be owned in common by the Owners. The Owners of

each Unit shall own an undivided interest in said Common Elements, the percentage or fraction thereof for each Unit being as shown on the attached Exhibit "C".

2.3 LIMITED COMMON ELEMENTS. Portions of the Common Elements are set aside and reserved for the exclusive use of the individual Owners, such areas being Limited Common Elements. The Limited Common Elements reserved for the exclusive use of the individual Owners are the assigned automobile covered parking spaces, patio and balcony structures, and separate storage spaces. Such spaces and structures are allocated and assigned by the Declarant to the respective Units, as indicated on the Plat. Such Limited Common Elements shall be used in connection with the particular Unit, to the exclusion of the use thereof by the other Owners, except by invitation.

2.4 REGULATION OF COMMON AREAS. Portions of the Common Areas are intended as recreation areas, and are improved with green areas, cabana, gazebo, hot tub, jacuzzi, barbeque area, and other facilities. Reasonable regulations governing the use of such facilities by Owners and by their guests and invitees shall be promulgated by the Declarant, or by the Board of Directors of the Association after the same has been elected. Such regulations shall be permanently posted at the office and/or elsewhere in said recreational areas, and all Owners shall be furnished with a copy thereof. Each Owner shall be required to strictly comply with said Rules and Regulations, and shall be responsible to the Association for the compliance therewith by the members of their respective families, relatives, guests or invitees, both minor and adult.

2.5 INSEPARABLE UNITS. Each Unit and its corresponding pro-rata interest in and to the Common Elements appurtenant thereto shall be inseparable and may not be conveyed, leased or encumbered separately, and shall at all times remain indivisible.

2.6 DESCRIPTIONS. Every deed, lease, mortgage, trust deed or other instrument may legally describe a Condominium Unit by its identifying Building letter and Unit number, as shown on the Map, followed by the words THE PALMS CONDOMINIUMS and by reference to this recorded Declaration and Map. Every such description shall be deemed good and sufficient for all purposes to convey, transfer, encumber or otherwise affect the Common Elements.

2.7 ENCROACHMENTS. If any portion of the Common Elements encroaches upon a Unit or Units, a valid easement for the encroachment and for the

maintenance of same, so long as it stands, shall and does exist. If any portion or portions of a Unit or Units encroach upon the Common Elements, a valid easement for the encroachment and for the maintenance of same, so long as it stands, shall and does exist. A valid easement also exists to that portion of the General Common Elements and of the Limited Common Elements occupied by any part of an Owner's Unit not contained within the physical boundaries of such Unit, including, but not limited to, space occupied by heating and air conditioning equipment, utility lines and similar equipment which serves only one (1) Unit. For title or other purposes, such encroachments and easements shall not be considered or determined to be encumbrances either on the Common Elements or the individual Units.

2.8 GOVERNMENTAL ASSESSMENT. Declarant shall give written notice to the Assessor's Office of the creation of Condominium Ownership of this Property, as is provided by law, so that each Unit and its percentage or fraction of undivided interest in the Common Elements shall be deemed a separate parcel and subject to separate assessment and taxation.

2.9 USE AND OCCUPANCY RESTRICTIONS.

a. Subject to the provisions of this Declaration and By-Laws, no part of the Property may be used for purposes other than housing and the related common purposes for which the Property was designed. Each Unit or any two (2) or more adjoining Units used together shall be used for residential purposes or such other uses permitted by this Declaration, and for no other purposes. The foregoing restrictions as to residence shall not, however, be construed in such manner as to prohibit a Unit Owner from:

(1) Maintaining his personal professional library;

(2) Keeping his personal business or professional records or accounts; or

(3) Handling his personal business or professional telephone calls or correspondence, which uses are expressly declared customarily incidental to the principal residential use and not in violation of said restrictions.

b. That part of the Common Elements separating and located between and exclusively serving two (2) or more adjacent Units used together (including, without limitation, portions of any hallway and any walls) may be altered with written consent of the Board, as

provided in Paragraph 3.8 herein, to afford ingress to and egress from such Units and to afford privacy to the Occupants of such Units when using such Common Elements, and that part of the Common Elements so altered may be used by the Unit Owner or Owners of such Units as a licensee pursuant to a license agreement with the Association, provided:

(1) The expense of making such alterations shall be paid in full by the Unit Owner or Owners making such alterations;

(2) Such Unit Owner or Owners shall pay in full the expense of restoring such Common Elements to their condition prior to such alteration in the event such Units shall cease to be used together, as aforesaid; and

(3) Such alteration shall not interfere with use and enjoyment of the Common Elements (other than the aforesaid part of the Common Elements separating such adjacent Units), including, without limitation, reasonable access and ingress to and egress from the other Units in the hallway affected by such alteration.

c. The Common Elements shall be used only by the Unit Owners and their agents, servants, tenants, family members, customers, invitees and licensees for access, ingress to and egress from the respective Units and for other purposes incidental to use of the Units; provided, however, receiving rooms, cabana, gazebo, hot tub, jacuzzi, barbeque area, and any other areas designed for specific use shall be used for the purposes approved by the Board.

d. The use, maintenance and operations of the Common Elements shall not be obstructed, damaged or unreasonably interfered with by any Unit Owner, and may be subject to lease, concession or easement, presently in existence or entered into by the Board at some future time.

e. Without limiting the generality of the foregoing provisions of this Paragraph 2.9, use of the Property by the Unit Owners shall be subject to the following restrictions:

(1) Nothing shall be stored in the Common Elements without prior consent of the Board, except in storage areas or as otherwise herein expressly provided;

(2) Nothing shall be done or kept in any Unit or in the Common Elements which will increase the rate of insurance for the Property without the prior written consent of the Board. No Unit Owner shall permit anything to be done or kept in his Unit or the Common Elements which will result in the cancellation of insurance on any Unit, or any part of the Common Elements, or which will be in violation of any law;

(3) No waste shall be committed in or on the Common Elements;

(4) Subject to Declarant's rights under Paragraph 2.9e(14)(d) of this Declaration, no sign of any kind shall be displayed to the public view on or from any Unit or Common Elements without the prior written consent of the Board or the written consent of the Managing Agent acting in accord with the Board's direction;

(5) No noxious or offensive activity shall be carried on, in or upon the Common Elements, nor shall anything be done therein which may be or become an unreasonable annoyance or a nuisance to any other Unit Owner. No loud noises or noxious odors shall be permitted on the Property, and the Board shall have the right to determine in accordance with the By-Laws if any such noise, odor or activity constitutes a nuisance. Without limiting the generality of any of the foregoing provisions, no exterior speakers, horns, whistles, bells or other sound devices (other than security devices used exclusively for security purposes), noisy or smoky vehicles, large power equipment or large power tools, unlicensed off-road motor vehicles or other items which may unreasonably interfere with television or radio reception of any Unit Owner in the Property, shall be located, used or placed on any portion of the Property or exposed to the view of other Unit Owners without the prior written approval of the Board;

(6) Except as expressly provided hereinabove, nothing shall be altered or constructed in or removed from the Common Elements, except upon the written consent of the Board;

(7) No structure of a temporary character, trailer, tent, shack, garage, barn or other outbuildings shall be permitted on the Property at any time temporarily or permanently, except with the prior written consent of the Board; provided, however, that temporary structures may be erected for use in connection with the repair or rebuilding of the Buildings or any portion thereof;

(8) No rubbish, trash or garbage or other waste material shall be kept or permitted upon any Unit or the Common Elements, except in sanitary containers located in appropriate areas screened and concealed from view, and no odor shall be permitted to arise therefrom so as to render the Property or any portion thereof unsanitary, unsightly, offensive or detrimental to any other Property in the vicinity thereof or to its Occupants. There shall be no exterior fires whatsoever except barbecue fires contained within receptacles designed in such a manner that no fire hazard is created. No clothing or household fabrics shall be hung, dried or aired in such a way in the Property as to be visible to other Property and no lumber, grass, shrub or tree clippings, plant waste, metals, bulk material, scrap, refuse or trash shall be kept, stored or allowed to accumulate on any portion of the Property, except within an enclosed structure or if appropriately screened from view;

(9) No Unit Owner shall park, store or keep any vehicle, except wholly within the parking space designated therefor, and any inoperable vehicle shall not be stored in a parking space or within the Common Elements in general. No Unit Owner shall park, store or keep within or adjoining the Property any large commercial-type vehicle (dump truck, cement-mixer truck, oil or gas truck,

delivery truck and any other vehicle equipment, mobile or otherwise, deemed to be a nuisance by the Board), or any recreational vehicle which cannot be contained within the individual parking space appurtenant to the Unit (camper unit, motor home, truck, trailer, boat, mobile home or other similar vehicle deemed to be a nuisance by the Board). No Unit Owner shall conduct major repairs or major restorations of any motor vehicle, boat, trailer, aircraft or other vehicle upon any portion of the Common Elements. Parking spaces shall be used for parking purposes only;

(10) Except within individual Units, no planting, transplanting or gardening shall be done, and no fences, hedges or walls shall be erected or maintained upon the Property, except as approved by the Board;

(11) Motorcycles, motorbikes, motor scooters or other similar vehicles shall not be operated within the Property except for the purpose of transportation directly from a parking space to a point outside the Property, or from a point outside the Property directly to a parking space;

(12) No animals, livestock, reptiles, or poultry of any kind shall be raised, bred or kept in any Unit or the Common Elements. Dogs, cats, fish, birds and other household pets may be kept in Units subject to rules and regulations adopted by the Association, provided they are not kept, bred or maintained for commercial purposes or in unreasonable quantities. As used in this Declaration, "unreasonable quantities" shall ordinarily mean more than two (2) pets per household; provided, however, the Association may determine a reasonable number in any instance to be more or less, and the Association may limit the size and weight of any household pets allowed. The Association, acting through the Board, shall have the right to prohibit maintenance of any animal which constitutes, in the opinion of the Board, a nuisance to any other Unit Owner. Animals belonging to Unit Owners,

Occupants or their licensees, tenants or invitees within the Property must be kept either within an enclosure, an enclosed patio or on a leash being held by a person capable of controlling the animal. The enclosure must be so maintained that the animal cannot escape therefrom and shall be subject to the approval of the Board. Should any animal belonging to a Unit Owner be found unattended out of the enclosure and not being held on a leash by a person capable of controlling the animal, such animal may be removed by Declarant (for so long as it has control over the Association) or a person designated by Declarant to do so, and subsequent thereto by the Association or its Managing Agent, to a pound under the jurisdiction of the local municipality in which the Property is situated and subject to the laws and rules governing said pound, or to a comparable animal shelter. Furthermore, any Unit Owner shall be absolutely liable to each and all remaining Unit Owners, their families, guests, tenants and invitees, for any unreasonable noise or damage to person or property caused by any animals brought or kept upon the Property by a Unit Owner or members of his family, his tenants or his guests; and it shall be the absolute duty and responsibility of each such Unit Owner to clean up after such animals which have used any portion of the Common Elements;

(13) No Unit Owner shall be permitted to lease less than the entire Unit. Every such lease shall be in writing. Every such lease shall provide that the lessee shall be bound by and subject to all of the obligations under the Declaration and By-Laws, of the Unit Owner making such lease and failure to do so shall be a default thereunder. The Unit Owner making such lease shall not be relieved thereby from any of said obligations; and

(14) In order that Declarant may establish the Property as a fully occupied Condominium, no Unit Owner nor the Association shall do anything to interfere with,

and nothing in the Declaration shall be understood or construed to:

(a) Prevent Declarant, its successors or assigns, or its or their contractors or subcontractors, from doing in any Unit owned by them whatever they determine to be necessary or advisable in connection with the completion of any work thereon;

(b) Prevent Declarant, its successors or assigns, or its or their representatives, from erecting, constructing and maintaining on the Common Elements or any Unit owned or controlled by Declarant, its successors or assigns, or its or their contractors or subcontractors, such structures as may be reasonably necessary for the conduct of its or their business of completing any work and establishing the Property as a Condominium and disposing of the same by sale, lease or otherwise;

(c) Prevent Declarant, its successors or assigns, or its or their representatives, from maintaining a Sales Office and maintaining and showing model Units to aid in the marketing of the Units during the Construction Period; or

(d) Prevent Declarant, its successors or assigns, or its or their contractors or subcontractors, from maintaining such sign or signs for marketing of Units in the Property.

2.10 RESERVATION OF VARIANCE. The Declarant reserves unto itself, as allowed by law, the exclusive right to amend the Condominium Plat and to vary the size, shape, physical lay-out or location of the unsold Units and to correspondingly adjust the sales price and the percentage or fraction of ownership of the Common Elements or the respective Units remaining unsold. Such adjustment in the percentage or fraction of ownership of the Common Elements will only affect those Units owned by the Declarant, and will not change or affect the percentage or fraction of ownership of any other Unit.

This reservation shall not work to readjust or reallocate any vested interests in the Common Elements appurtenant to any sold Units.

ARTICLE III

RIGHTS AND OBLIGATIONS OF OWNERSHIP

3.1 OWNERSHIP. A Condominium Unit will be a fee simple estate and may be held and owned by any person, firm, corporation or other entity singularly, as joint tenants, as tenants in common, or in any real property tenancy relationship recognized under the laws of the State of Texas.

3.2 PARTITION. The Common Elements (both General and Limited) shall be owned in common by all of the Owners of the Condominium Units and shall remain undivided, and no Owner shall bring any action for partition or division of the Common Elements other than that as specifically provided for hereinafter in Paragraph 6.2, "Judicial Partition", and, in any event, all mortgages must be paid prior to the bringing of an action for partition or the consent of all Mortgagees must be obtained. Nothing contained herein shall be construed as a limitation of the right of partition of a Condominium Unit between the Owners thereof, but such partition shall not affect any other Condominium Unit.

3.3 EXCLUSIVENESS OF OWNERSHIP. Each Owner shall be entitled to exclusive ownership and possession of his Unit. Each Owner may use the Common Elements in accordance with the purposes for which they are intended, without hindering or encroaching upon the lawful rights of the other Owners.

3.4 ONE-FAMILY RESIDENTIAL DWELLING. Each Condominium Unit shall be occupied and used or leased by the Owner only as and for a residential dwelling for the Owner, his family, his social guests or his tenants.

3.5 MECHANIC'S AND MATERIALMAN'S LIENS. No labor performed or materials furnished and incorporated in a Unit, notwithstanding the consent or request of the Owner, his agent, contractor or subcontractor, shall be the basis for filing of a lien against the Common Elements owned by such other Owners. Each Owner shall indemnify and hold harmless each of the other Owners from and against all liability arising from the claim of any lien against the Unit of any other Owner or against the Common Elements for construction performed or for labor, materials, services or other products incorporated in the Owner's Unit at such Owner's request.

3.6 RIGHT OF ENTRY. The Association shall have the irrevocable right to have access to each Unit from time to time during reasonable hours as may be necessary for the maintenance, repair or replacement of any of the Common Elements therein or accessible therefrom, or at any time for making emergency repairs therein necessary to prevent damage to the Common Elements or to another Unit or Units.

3.7 OWNER MAINTENANCE. An Owner shall maintain and keep in repair the interior, patio and/or balcony space and storage space of his own Unit, including the fixtures thereof. All fixtures and equipment installed with the Unit, commencing at a point where the utility lines, pipes, wires, conduits or systems (which for brevity are hereafter referred to as "utilities") enter the Unit, shall be maintained and kept in repair by the Owner thereof, and an Owner shall be obliged to promptly repair and replace any broken or cracked glass in windows and doors. An Owner shall be totally responsible for his own heating and cooling system.

3.8 ALTERATION. An Owner shall do no act nor any work that will impair the structural soundness and integrity of the Building or impair any easement or hereditament. No Owner shall in any way alter, modify, add to or otherwise perform any work whatever upon any of the Common Elements, Limited or General, without the prior written consent and approval in writing by the Board of Directors. Any such alteration or modification shall be in harmony with the external design and location of the surrounding structures and topography, and shall not be considered until submission to the Association of complete plans and specifications showing the nature, kind, shape, size, materials, color and location for all proposed work. The Board shall have the obligation to answer within thirty (30) days after receipt of notice of the proposed alterations. Failure to so answer within the stipulated time shall mean that there is no objection to the proposed alteration or modification. During the Construction Period, Declarant shall have the sole right to approve or reject any plans and specifications submitted for consideration by an Owner.

3.9 RESTRICTION OF OWNERSHIP. As a restriction of the ownership provisions set forth in Paragraph 1.1t, "Unit", an Owner shall not be deemed to own the unfinished surfaces of the perimeter walls, floors, ceilings, balconies, patios and roofs surrounding his Unit, nor shall such Owner be deemed to own the utilities running through his Unit which are utilized for, or serve, more than one (1) Unit, except as a tenant in common with the other

Owners. An Owner shall be deemed to own and shall maintain the inner, finished surfaces of the perimeter and interior walls, floors and ceilings, doors, windows and other such elements consisting of paint, wallpaper and other such finishing material.

3.10 LIABILITY FOR NEGLIGENT ACTS. In the event the need for maintenance or repair is caused through the willful or negligent act of an Owner, his family, guests or invitees, and is not covered or paid for by insurance either on such Unit or the Common Elements, the cost of such maintenance or repairs shall be added to and become a part of the assessment to which such Unit is subject, pursuant to Article IV hereof. Such liability is limited to the liability Owner has under Texas law.

3.11 SUBJECT TO DECLARATION AND BY-LAWS. Each Owner and the Association shall comply strictly with the provisions of this Declaration, the By-Laws and the decisions and resolutions of the Association adopted pursuant thereto, as the same may be lawfully amended from time to time. Failure to comply with any of the same shall be grounds for an action to recover sums due for damages or for injunctive relief, or both, maintainable by the Association on behalf of the Owners or, in proper case, by an aggrieved Owner against another Owner or against the Association.

ARTICLE IV -----

MANAGEMENT AND ADMINISTRATION

4.1 BY-LAWS. The administration of this Condominium Property shall be governed by the By-Laws of THE PALMS OWNERS ASSOCIATION, INC., a non-profit corporation, referred to herein as the "Association". An Owner of a Condominium Unit, upon becoming an Owner, shall be a Member of the Association and shall remain a Member for the period of his ownership. The Association may be managed by a Board of Directors, duly appointed or elected, pursuant to the terms and conditions of the By-Laws. In addition, the Association shall enter into a management agreement upon the terms and conditions established in the By-Laws, and said management agreement shall be consistent with this Declaration.

4.2 DECLARANT CONTROL. Paragraph 4.1 notwithstanding, and for the benefit and protection of the Unit Owners and any First Mortgagees of record for the sole purpose of insuring a complete and orderly buildout as well as a timely sellout of the Condominium Project, the Declarant will retain control

of and over the Association for a maximum period not to exceed July 1, 1986, or one hundred twenty (120) days from the closing of sales of seventy-five percent (75%) of the Units, or when in the sole opinion of the Declarant, the Project becomes viable, self-supporting and operational, whichever occurs first. It is expressly understood, the Declarant will not use said control for any advantage over the Unit Owners by way of retention of any residual rights or interests in the Association or through the creation of any management agreement with a term longer than three (3) years without majority Association approval upon relinquishment of Declarant control. Within sixty (60) days from the end of the Declarant Control Period, or sooner at the Declarant's option, the Declarant, through the Board of Directors, shall call the first annual meeting of the Association for the purpose of electing, by ballot of Owners, a Board of Directors and to transact such other business of the Association as may properly come before it.

4.3 TEMPORARY MANAGING AGENT. During the period of administration of this Condominium Regime by Declarant, the Declarant may employ or designate a temporary manager or managing agent, who shall have and possess all of the rights, powers, authority, functions and duties as may be specified in the contract of employment or as may be delegated by Declarant to him. The Declarant may pay such temporary manager or managing agent such compensation as it may deem reasonable for the services to be rendered, which compensation shall constitute a part of the Common Expenses of this Condominium Regime and shall be paid out of the Association budget.

4.4 SPECIFIC POWER TO RESTRICT USE AND COMMITMENT. Every Owner and the Declarant shall have a beneficial interest of use and enjoyment in the Common Elements subject to the following limitations, restrictions and provisions:

a. The right of the Association to publish rules and regulations governing use of the Common Areas and the improvements and facilities located thereon, and to establish and enforce penalties for infractions thereof;

b. The right of the Association to charge reasonable fees for the use of the Common Elements, if such facilities are not used by all Members equally;

c. The right of the Association to borrow money and mortgage the Common Area and improvements for the purpose of improving the Common Area and facilities and in aid thereof to mortgage said

property; providing, however, that the rights of any such Mortgagee in such property shall be subordinate to the rights of the Owners hereunder, and in no event shall any such Mortgagee have the right to terminate the Condominium Regime established by this Declaration;

d. The right and duty of the Association to suspend the voting rights and the right to the use of the recreational facilities by an Owner for any period during which any assessment against the Owner's Condominium Unit remains unpaid;

e. The right of Declarant or the Association after the Declarant Control Period to dedicate or transfer all or any part of the Common Area for utility easements to any public agency, authority or utility for the purposes, and subject to the conditions, of such agency, authority or utility. No such dedication or transfer shall be effective unless approved by all First Mortgagees and two-thirds (2/3) vote of the quorum of Owners present at a meeting of the Association specifically called for the purpose of approving any such dedication or transfer, and unless an instrument signed by the Board of Directors reflecting such vote of the Owners agreeing to such dedication or transfer and First Mortgagee approval has been duly recorded in the Condominium Records of Galveston County, Texas;

f. The right of the Association to adopt, implement and maintain a private security system for the Premises consistent with applicable laws;

g. The right of the Association to establish rules and regulations governing traffic within the Common Area, and to establish sanctions for any violation or violations of such rules and regulations;

h. The right of the Association to regulate noise within the Premises, including, without limitation, the right of the Association to require mufflers on engines and to prohibit the use of devices producing excessive noise; and

i. The right of the Association to control the visual attractiveness of the property, including, without limitation, the right to require Owners to eliminate objects which are visible from the Common Area and which, in the Association's judgment, detract from the visual attractiveness of the Property.

4.5 MEMBERSHIP, VOTING, QUORUM, PROXIES.

a. Membership. Any person on becoming an Owner of a Condominium Unit shall automatically become a Member of the Association. Such membership shall terminate without any formal Association action whenever such person ceases to own a Condominium Unit, but such termination shall not relieve or release any such former Owner from any liability or obligation incurred under or in any way connected with THE PALMS CONDOMINIUMS during the period of such ownership and membership of the Association, or impair any rights or remedies which the Board of Directors of the Association or others may have against such former Owner and Member arising out of or in any way connected with such ownership and membership and the covenants and obligations incident thereto. No certificates of stock shall be issued by the Association, but the Board of Directors may, if it so elects, issue one (1) membership card to the Owner(s) of a Condominium Unit. Such membership card shall be surrendered to the Secretary whenever ownership of the Condominium Unit designated thereon shall terminate.

b. Voting. Unit ownership shall entitle the Owner(s) to cast one (1) vote per Unit in the affairs of the Association, which vote will be weighted to equal the proportionate share of ownership of the Unit Owner in the Common Elements. Voting shall not be split among more than one (1) Unit Owner. The present number of votes that can be cast by the Unit Owners is forty-eight (48). The combined weighted votes calculated in accordance with Exhibit "C" shall equal one hundred percent (100%).

c. Quorum. The requirements for a quorum are defined in Article III, Paragraph 3.4 of the By-Laws.

d. Proxies. Votes may be cast in person or by proxy. Proxies may be filed with the Secretary before the appointed time of each meeting.

4.6 INSURANCE.

a. The Association shall obtain and maintain at all times insurance of the type and kind provided hereinafter, including such other risks, of a similar or dissimilar nature, as are or shall hereafter customarily be covered with respect to any Condominium

Buildings, fixtures, equipment and personal property, similar in construction, design and use, issued by responsible insurance companies authorized to do business in the State of Texas. The insurance shall be carried in blanket policy form naming the Association and all Mortgagees as the insured. In addition, each policy or policies shall identify the interest of each Condominium Unit Owner and shall provide for a standard, noncontributory mortgage clause in favor of each First Mortgagee. Further, the policy shall insure against loss or damage by fire, vandalism, malicious mischief or such other hazards as are covered under standard extended coverage provisions for the full insurable replacement cost of the Common Elements and the Units, and against such other hazards and for such amounts as the Board may deem advisable. Each Owner irrevocably designates the Owners Association, as Attorney In Fact, to administer and distribute such proceeds as is elsewhere provided in this Declaration. Such insurance policy shall also provide that it cannot be cancelled by either the insured or the insurance company until after thirty (30) days prior written notice to each First Mortgagee. The Board of Directors shall, upon request of any First Mortgagee, furnish a certified copy of each blanket policy and a separate certificate identifying the interest of the Mortgagor.

b. The Association shall keep a comprehensive policy or policies of public liability insurance covering the Common Elements of the Project with a contractual liability endorsement, and such policy or policies shall include a "Severability of Interest Endorsement" or equivalent coverage which will preclude the insurer from denying the claim of a Unit Owner because of negligent acts by the Association, its Board of Directors or a Unit Owner. Such policy or policies shall be in amounts of not less than One Hundred Thousand Dollars (\$100,000.00) per person, Three Hundred Thousand Dollars (\$300,000.00) per accident and Fifty Thousand Dollars (\$50,000.00) property damage, plus an umbrella policy for not less than One Million Dollars (\$1,000,000.00) for all claims for personal injury, including death, and/or property damage arising out of a single occurrence; and the policy shall include water damage

liability, liability for non-owned and hired automobiles, liability for property of others and such other coverage as is customarily deemed necessary with respect to projects similar in nature.

c. The Association shall keep a policy or policies of (i) liability insurance or a fidelity bond insuring the Board of Directors, officers and employees of the Association against any claims, losses, liabilities, damages or causes of action arising out of, or in connection with, or resulting from any act done or omission to act by any such person or entities, up to an amount equal to three (3) months' assessments plus reserves, (ii) workmen's compensation as required under the laws of the State of Texas, and (iii) such other insurance as deemed reasonable and necessary in order to protect the Project, the Unit Owners and the Association.

d. The Association shall be responsible for obtaining insurance upon the Units, including all fixtures, installations or additions thereto contained within the unfinished interior surfaces of the perimeter walls, floors and ceilings of such Unit, as initially installed or replacements thereof. The Association shall not be responsible for procurement or maintenance of any insurance covering the liability of any Unit Owner not caused by or connected with the Association's operation or maintenance of the Project. Each Unit Owner may obtain additional insurance at his own expense for his own benefit. Insurance coverage on the furnishings and other items of personal property belonging to a Unit Owner and casualty and public liability insurance coverage within each Unit are specifically made the responsibility of each Unit Owner, and each Unit Owner must furnish a copy of his insurance policy to the Association.

e. The Association shall obtain fidelity bond coverage as provided in Paragraph 5.12 of the By-Laws.

f. Any insurance obtained by the Association or a Unit Owner shall contain appropriate provisions whereby the insurer waives its right of subrogation as to any claims against the Unit Owners, Association or their respective servants, agents or guests.

MAINTENANCE ASSESSMENTS

5.1 ASSESSMENTS FOR COMMON EXPENSES. All Owners shall be obligated to pay the assessments imposed by the Association to meet the Common Expenses. Assessments for the estimated Common Expenses shall be due monthly in advance on or before the first day of each month. Failure to pay by the fifteenth (15th) day of each month shall require the imposition and assessment of a late charge to be set by the Board of Directors in the Rules and Regulations of the Association. Contribution for monthly assessments shall be prorated if the ownership of a Condominium Unit commences on a day other than the first day of the month.

5.2 PURPOSE OF ASSESSMENTS. The assessments levied by the Association shall be used exclusively for the purposes of promoting the health, safety, welfare and recreation of the residents in the Property, and in particular for the improvement, maintenance and preservation of the Property, the services and the facilities devoted to said purposes that are related to the use and enjoyment of both the Common Elements and the Units situated upon the Property. Such uses may include, but are not limited to, the cost to the Association of the following: all insurance, repair, replacement and maintenance of the Common Elements; fire, extended coverage, vandalism, malicious mischief and liability insurance for the Condominium Units; management costs, taxes, legal and accounting fees as may from time to time be authorized by the Association; construction of other facilities; maintenance of easements upon, constituting a part of, appurtenant to or for the benefit of the Property; mowing grass, caring for the grounds and landscaping; caring for the cabana, gazebo, hot tub, jacuzzi and barbeque area; roofs and exterior surfaces of all Buildings and covered parking spaces; garbage pickup; pest control; street maintenance; outdoor lighting; security service for the Property; water and sewer service furnished to the Property by or through the Association; discharge of any liens on the Common Elements; and other charges required by this Condominium Declaration, or other charges that the Association is authorized to incur. In addition, the Association shall establish a reserve for repair, maintenance and other charges as specified herein.

5.3 DETERMINATION OF ASSESSMENTS. The assessments shall be determined by the Board of Directors based upon the cash requirements necessary to

provide for the payment of all estimated expenses growing out of or connected with the maintenance and operation of the Common Elements. This determination may include, among other items, taxes, governmental assessments, landscaping and grounds care, Common Area lighting, repairs and renovation, garbage collections, wages, water charges, legal and accounting fees, management costs and fees, expenses and liabilities incurred by the Association under or by reason of this Declaration, expenses incurred in the operation and maintenance of recreation and administrative facilities, payment of any deficit remaining from a previous period and the creation of a reserve contingency fund. The omission or failure of the Board to fix the assessment for any month shall not be deemed a waiver, modification or a release of the Owners from the obligation to pay.

5.4 INITIAL ASSESSMENT AND MAXIMUM MONTHLY ASSESSMENT.

a. The monthly assessments shall be made according to each Owner's proportionate or percentage interest in and to the Common Elements provided in Exhibit "C" attached hereto and shall commence upon conveyance of the Unit to the Owner.

b. At least thirty (30) days prior to January 1st, the Board of Directors shall determine the annual budget for the Association and shall set the monthly assessment for the next succeeding twelve (12)-month period. Said monthly assessment shall not exceed one hundred twenty percent (120%) of the monthly assessment allowed for January of the preceding year. At any time during the calendar year, the Board shall have a right to adjust the monthly assessments, as long as any such adjustment does not exceed the maximum permitted herein, with thirty (30) days' written notice given to each Owner. Written notice of the monthly assessment adjustment shall be sent to every Owner subject thereto. The due date shall be established by the Board, and unless otherwise provided or unless otherwise agreed by the Association, the Board shall collect the assessments monthly in accordance with Paragraph 5.1 hereof. If the Board determines at any time during the calendar year that a greater increase of the monthly assessment is required to adequately perform the duties and responsibilities of the Association and pay all expenses thereof, then the Board may call a special meeting of the Owners. By the assent of a two-thirds (2/3)

vote of the quorum of Owners, present at such meeting, the monthly assessment may be set at whatever level such Owners approve. The new assessment shall become the basis for future annual increases, using the one hundred twenty percent (120%) formula, as above outlined.

c. In the event that the Board shall not approve an estimated annual budget or shall fail to determine new assessments for any year, or shall be delayed in doing so, each Unit Owner shall continue to pay each month the amount of his respective monthly assessment as last determined.

d. The Board of Directors shall have authority to lower the monthly assessment, if it deems feasible.

5.5 SPECIAL ASSESSMENTS FOR IMPROVEMENTS. In addition to the annual assessments authorized above, the Association, through the Board of Directors, may levy at any time during the calendar year a special assessment applicable to that year only, for the purpose of defraying, in whole or in part, Common Expenses not anticipated by the annual budget, contingency or reserve funds, including the cost of construction or reconstruction, repair or replacement of the Common Elements, as well as the necessary fixtures and personal property related thereto. Any such assessment must be approved by a two-thirds (2/3) vote of the quorum of Owners voting in person or by proxy at a meeting duly called for this purpose. The Declarant will be treated as all other Unit Owners for purposes of special assessments. Said special assessments shall be assessed against each Owner in proportion to each Unit's ownership interest in the Common Elements as set forth herein.

5.6 COMMENCEMENT OF ASSESSMENTS. The monthly assessments provided for herein shall be due on the first day of the month. The assessments shall be prorated if the ownership of a Unit commences on a day other than the first day of the month. On Units owned by the Declarant, the assessment shall commence on the first day of the month after the Declarant Control Period is terminated, in accordance with Paragraph 5.11 herein.

5.7 NO EXEMPTION. No Owner may exempt himself from liability for his contribution towards the Common Expenses by waiver of the use or enjoyment of any of the General or Limited Common Elements or by abandonment of his Unit.

5.8 LIEN FOR ASSESSMENTS.

a. All common monthly assessments and special assessments assessed but unpaid by a Unit Owner for its share of Common Expenses chargeable to its respective Condominium Unit, including interest thereon at ten percent (10%) per annum, shall constitute a lien on such Unit superior (prior) to all other liens and encumbrances, except only for:

(1) All taxes and special assessments levied by governmental and taxing authorities; and

(2) All liens securing sums due or to become due under any duly recorded mortgage, vendor's lien or deed of trust.

b. To evidence such lien the Association may, but shall not be required to, prepare written notice setting forth the amount of such unpaid indebtedness, the name of the Owner of the Condominium Unit and a description of the Condominium Unit. Such notice shall be signed by one (1) of the Board of Directors and may be recorded in the Office of the Clerk and Recorder of Galveston County, Texas. Such lien for the Common Expenses shall attach from the date of the failure of payment of the assessment. Such lien may be enforced by foreclosure of the defaulting Owner's Condominium Unit by the Association. Any such foreclosure sale is to be conducted in accordance with the provisions applicable to the exercise of powers of sale in mortgages and deeds of trust, as set forth in Section 51.002 of the Texas Property Code, as amended by Acts 1983, 68th Leg., Ch. 915 (Sec. 3810 Revised Civil Statutes) or in any manner permitted by law. Each Owner, by accepting a deed to his Unit, expressly grants to the Association a power of sale, as set forth in said Section 51.002, in connection with the assessment lien. In any such foreclosure, the Owner shall be required to pay the costs and expenses of such proceedings, the costs and expenses for filing the notice or claim of lien and all reasonable attorney's fees. The Owner shall also be required to pay to the Association a reasonable rental for the Condominium Unit during the period of foreclosure, that being the point in time after the foreclosure is posted, and the Association shall be entitled to a receiver to collect same.

The Association shall have the power to bid in the Condominium Unit at foreclosure sale and to acquire and hold, lease, mortgage and convey same.

c. The amount of the Common Expenses assessed against each Condominium Unit shall also be a debt of the Owner thereof at the time the assessment is made. Suit to recover a money judgment for unpaid Common Expenses shall be maintainable without foreclosing or waiving the lien securing same.

d. In addition, to the extent permitted by law, Declarant reserves and assigns to the Association, without recourse, a vendor's lien against each Unit to secure payment of a common assessment or special assessment which is levied pursuant to the terms hereof. Said liens may be enforced by appropriate judicial proceedings and the expense incurred in connection therewith, including, but not limited to, interest, costs and reasonable attorney's fees, shall be chargeable to the Owner in default. Such lien shall be subordinated and inferior to those liens listed in Subparagraphs 5.8a(1) and (2).

e. Any encumbrancer holding a lien on a Condominium Unit may pay any unpaid Common Expense payable with respect to such Unit, and upon such payment, such encumbrancer shall have a lien on such Unit for the amount paid of the same rank as the lien of his encumbrance.

5.9 SUBORDINATION OF THE LIEN TO MORTGAGES. The lien of the assessments provided for herein shall be subordinate to the lien of any recorded mortgage or mortgages granted or created by the owner of any Condominium Unit to secure the payment of monies advanced and used for the purpose of purchasing and/or improving such Unit. Sale or transfer of any Unit shall not affect the assessment lien; provided, however, that the sale or transfer of any Condominium Unit pursuant to a foreclosure, a deed in lieu of foreclosure, assignment in lieu of foreclosure under such purchase money or improvement mortgages or deeds of trust shall extinguish the lien of such assessments as to payments thereof coming due prior to such sale or transfer, except for claims for its pro rata share of such assessments resulting from a reallocation among all Units, which reallocation, if necessary, will require a readjustment of the common assessment as provided in Paragraph 5.4b. No sale

or transfer shall relieve such Condominium Unit, or the Owners thereof, from liability for any assessments thereafter becoming due or from the lien thereof.

5.10 STATEMENT OF ASSESSMENTS. Upon the written request of any Owner or any encumbrancer or prospective encumbrancer of a Condominium Unit, the Association, by its Board of Directors, shall issue a written statement setting forth the unpaid assessments, if any, with respect to the subject Unit, the amount of the current monthly assessments, the date of such assessment and the due date, credit for advance payments or for prepaid items, including, but not limited to, insurance premiums, which shall be conclusive upon the Association in favor of all persons who rely thereon in good faith. Unless such request for a statement of indebtedness shall be complied with within ten (10) days, all unpaid assessments which become due prior to the date of making of such request shall be subordinate to the lien of the person requesting such statement.

The Purchaser, Donee or other transferee of a Unit, by deed or other writing (herein called "Grantee"), shall be jointly and severally liable with the transferor of such Unit (herein called "Grantor") for all unpaid assessments against the latter for his proportionate share of the Common Expenses up to the time of the grant or conveyance, without prejudice to the Grantee's right to recover from Grantor the amounts paid by the Grantee, but such transferee shall be personally liable only if he expressly assumes such liability. The Grantee shall be entitled to a statement from the Board of Directors, setting forth the amount of the unpaid assessments, if any, with respect to the subject Unit, the amount of the current monthly assessment and the date such assessment becomes due, as well as any credit for advanced payments or for prepaid items, including, but not limited to, insurance premiums. This statement shall be conclusive upon the Association. Unless such request for a statement of indebtedness shall be complied with within ten (10) days of such request, such Grantee shall not be liable for, nor shall the Unit conveyed be subject to a lien for, any unpaid assessments against the subject Condominium Unit accruing prior to such ten (10)-day period.

5.11 OBLIGATION OF DECLARANT FOR ASSESSMENTS AND MAINTENANCE. During the Declarant Control Period, as provided in Paragraph 4.2 hereof, the Declarant shall be responsible for the difference between the cost of maintenance and assessments received from the other Unit Owners and shall not be limited to the regular monthly assessments for Units owned by Declarant until the end of

the Declarant Control Period or until Declarant, at its option, chooses to make regular monthly payments, whichever first occurs. Should Declarant elect not to make regular monthly assessments, Declarant shall provide any additional funds necessary to pay actual cash outlays required to fund current operating expenses of the Association. After the Declarant Control Period is terminated or earlier at Declarant's option, Declarant shall pay the regular monthly assessment for each Unit or Units it owns. In no event shall Declarant's liability for assessments be less than required by the Act.

ARTICLE VI

DESTRUCTION OR OBSOLESCENCE OF IMPROVEMENTS

6.1 DESTRUCTION OR OBSOLESCENCE.

a. This Declaration hereby makes mandatory the irrevocable appointment of an Attorney In Fact to deal with the Property upon its destruction, obsolescence or condemnation. Title to any Condominium Unit is declared and expressly made subject to the terms and conditions hereof, and acceptance by any Grantee of a deed from the Declarant or from any Owner shall constitute appointment of the Attorney In Fact herein provided. All of the Owners irrevocably constitute and appoint THE PALMS OWNERS ASSOCIATION, INC., or its successor non-profit corporation, if same be hereafter organized, their true and lawful Attorney in their name, place and stead, for the purpose of dealing with the Property upon its destruction, obsolescence or condemnation, as hereinafter provided. As Attorney In Fact, the Association, by its authorized officers shall have full and complete authorization, right and power to make, execute and deliver any contract, deed or any other instrument with respect to the interest of a Condominium Unit Owner which is necessary and appropriate to exercise the powers herein granted.

b. Repair and reconstruction of the improvement(s), as used in the succeeding subparagraphs, means restoring the improvement(s) to substantially the same condition in existence prior to the damage, with each Unit and Common Elements having the same vertical and horizontal boundaries as before. The proceeds of any insurance collected shall be made available to the Association for the purpose

of repair, restoration or replacements, unless all of the Owners and all of the First Mortgagees agree not to rebuild in accordance with the provisions set forth hereinafter:

(1) In the event of damage or destruction due to fire or other disaster, the insurance proceeds, if sufficient to reconstruct the improvement(s), shall be applied by the Association, as Attorney In Fact, to such reconstruction, and the improvement(s) shall be promptly repaired and reconstructed.

(2) If the insurance proceeds are insufficient to repair and reconstruct the improvement(s), and if such damage is not more than sixty-six and two-thirds percent (66-2/3%) of all the Common Elements as determined by a majority of the Unit Owners, not including land, such damage or destruction shall be promptly repaired and reconstructed by the Association, as Attorney In Fact, using the proceeds of insurance and the proceeds of an assessment to be made against all of the Owners and their Condominium Units. Such deficiency assessment shall be a special assessment made pro rata according to each Owner's proportionate interest in and to the Common Elements and shall be due and payable within thirty (30) days after written notice thereof. The Association shall have the authority to cause the repair or restoration of the improvements using all of the insurance proceeds for such purpose notwithstanding the failure of an Owner to pay the assessment. The assessment provided for herein shall be a debt of each Owner and a lien on his Condominium Unit and may be enforced and collected as is provided in Article V hereof. The lien provided for herein shall be subordinate to any recorded first mortgage lien, as provided in Paragraph 5.9 of this Declaration. Should the Association choose to foreclose said lien, as provided in Article V, the proceeds derived from the sale of such Condominium Unit shall be used and disbursed by the Association, as Attorney In Fact, in the following order:

(a) For payment of taxes and special assessment liens in favor of any governmental assessing entity;

(b) For payment of the balance of the lien of any duly recorded mortgage instrument;

(c) For payment of unpaid Common Expenses;

(d) For payment of junior liens and encumbrances in the order and extent of their priority; and

(e) The balance remaining, if any, shall be paid to the Condominium Unit Owner.

(3) If more than sixty-six and two-thirds percent (66-2/3%) of all of the Common Elements as determined by a majority of Unit Owners, not including land, are destroyed or damaged, and if the Owners representing the aggregate ownership of one hundred percent (100%) of the Common Elements, do not voluntarily, within one hundred (100) days thereafter, make provision for reconstruction, the Association shall forthwith record a notice setting forth such fact or facts, and upon the recording of such notice by the Association's President and Secretary, the entire remaining Premises shall be sold by the Association, as Attorney In Fact for all of the Owners, free and clear of the provisions contained in this Declaration, the Plat and the By-Laws. The insurance settlement proceeds shall be collected by the Association, and such proceeds shall be divided by the Association according to each Unit Owner's interest (as such interests appear on the policy or policies), and such divided proceeds shall be paid into separate accounts, one such account for each Condominium Unit. Each such account shall be in the name of the Association, and shall be further identified by the number of the Unit and the name of the Owner. From each separate account, the Association, as Attorney In Fact, shall use and disburse the total amount (of each) of such accounts, without contribution from any one (1) account to another,

toward the full payment of the lien of any first mortgage against the Condominium Unit represented by such separate account. There shall be added to each such account, the apportioned amount of the proceeds derived from the sale of the entire Property. Such apportionment shall be based upon each Condominium Unit Owner's proportionate interest in the Common Elements. The total funds of each account shall be used and disbursed, without contribution from one (1) account to another, by the Association, as Attorney In Fact, for the same purposes and in the same order as is provided in Subparagraphs b(2)(a) through (e) of Paragraph 6.1 hereof. Any decision to terminate the condominium status as herein provided must have the approval of First Mortgagees as provided in Paragraph 8.1c herein.

(4) If the Owners representing a total ownership interest of one hundred percent (100%) of the Common Elements adopt a plan for reconstruction, then all of the Owners shall be bound by the terms and provisions of such plan. Any assessment made in connection with such plan shall be a Common Expense and made pro rata according to each Owner's proportionate interest in the Common Elements and shall be due and payable as provided by the terms of the plan. The Association shall have the authority to cause the repair and restoration of the improvements using all of the insurance proceeds for such purpose notwithstanding the failure of an Owner to pay the assessment. The assessment provided for herein shall be a debt of each Owner and a lien on his Condominium Unit and may be enforced and collected as is provided in Paragraph 5.8 hereof, but will be subordinate to any duly recorded first mortgage lien, as provided in Paragraph 5.9 hereof. Should the Association foreclose said assessment lien, as provided in said Paragraph 5.8, the proceeds derived from sale of such Condominium Unit shall be used and disbursed by the Association, as Attorney In Fact, for the same

purposes and in the same order as is provided in Subparagraphs b(2)(a) through (e) of Paragraph 6.1 hereof.

(5) The Owners representing an aggregate ownership interest of sixty-six and two-thirds percent (66-2/3%) of the Common Elements or more, may agree that the Common Elements of the Property are obsolete and that the same should be renewed or reconstructed. In such instance, the expenses thereof shall be payable by all of the Owners as Common Expenses.

(6) Any restoration, reconstruction or repair of the Project shall be performed substantially in accordance with this Declaration and the original Plans and specifications, unless other action is approved by the holders of mortgages on Units which have at least fifty-one percent (51%) of the votes of the Association.

(7) The Owners representing an aggregate ownership interest of one hundred percent (100%) of the Common Elements and all holders of first mortgages may agree that the Common Elements of the Property are obsolete and that the same should be sold. In such instance, the Association shall record a notice setting forth such fact or facts, and upon the recording of such notice by the Association's authorized officers, the entire Premises shall be sold by the Association, as Attorney In Fact, for all of the Owners, free and clear of the provisions contained in this Declaration, the Plat and the By-Laws. The sales proceeds shall be apportioned between the Owners and First Mortgagees as their interests may appear on the basis of each Owner's percentage or fraction of interest in the Common Elements, and such apportioned proceeds shall be paid into separate accounts, one such account for each Condominium Unit. Each such account shall be in the name of the Association, and shall be further identified by the number of the Unit and the name of the Owner. From each separate account, the Association, as Attorney In Fact, shall use and disburse the total amount of each of

such funds, without contribution from (1) fund to another, for the same purposes and in the same order as is provided in Subparagraphs b(2)(a) through (e) of Paragraph 6.1 hereof.

6.2 JUDICIAL PARTITION. There shall be no judicial partition of the Common Elements, nor shall Declarant or any person acquiring any interest in the Project or any part thereof seek any such judicial partition, until the happening of the conditions set forth in Paragraph 6.1 hereof in the case of damage or destruction or unless the Property has been removed from the provisions of the Texas Condominium Act; provided, however, that if any Condominium Unit shall be owned by two (2) or more co-tenants, as tenants in common or as joint tenants, nothing herein contained shall be deemed to prevent a judicial partition between such co-tenants, but such partition shall not affect any other Condominium Unit.

6.3 CONDEMNATION.

a. If all or any part of the Property is taken or threatened to be taken by eminent domain or by power in the nature of eminent domain (whether permanent or temporary), the Association, as Attorney In Fact, and each Owner shall be entitled to participate in proceedings incident thereto at their respective expense. The Association shall give timely written notice of the existence of such proceedings to all Owners and to all First Mortgagees known to the Association to have an interest in any Condominium Unit. The expense of participation in such proceedings by the Association shall be borne by the Common Fund. The Association, as Attorney In Fact, is specifically authorized to obtain and pay for such assistance from attorneys, appraisers, architects, engineers, expert witnesses and other persons as the Association in its discretion deems necessary or advisable to aid or advise it in matters relating to such proceedings. All damages or awards for any such taking shall be deposited with the Association, as Attorney In Fact, and such damages or awards shall be applied as provided herein. In the event that an action in eminent domain is brought to condemn a portion of the Common Elements (together with or apart from any Condominium Unit), the Association, as Attorney In Fact, in addition to the general powers set out herein, shall have the sole authority

to determine whether to defend or resist any such proceeding, to make any settlement with respect thereto, or to convey such Property to the condemning authority in lieu of such condemnation proceeding.

b. With respect to any such taking, all damages and awards shall be determined for the taking of the individual Units and for the taking of the Common Elements and for each Owner's interest therein. After the damages or awards for such taking are determined, such damages or awards shall be paid to the account of each Owner for the loss of the individual Unit plus an amount in proportion to his percentage or fractional ownership interest in the Common Elements to be applied or paid as set forth in Subparagraphs 6.1b(2)(a) through (e) hereof, unless restoration takes place as herein provided. The Association, if it deems advisable, may call a meeting of the Owners, at which meeting the Owners, by a majority vote, shall decide whether to replace or restore, as far as possible, the Common Elements so taken or damaged. In the event it is determined that such Common Elements should be replaced or restored by obtaining other land or building additional structures, this Declaration and the Map attached hereto shall be duly amended by instrument executed by the Association, as Attorney In Fact, on behalf of the Owners. In the event that such eminent domain proceeding results in the taking of or damage to one (1) or more, but less than sixty-six and two-thirds percent (66-2/3%) of the total number of Condominium Units, then the damages and awards for such taking shall be determined for each Condominium Unit and the following shall apply:

(1) The Association shall determine which of the Condominium Units damaged by such taking may be made tenantable for the purposes set forth in this Declaration, taking into account the nature of this Condominium Project and the reduced size of each Condominium Unit so damaged.

(2) The Association shall determine whether it is reasonably practicable to operate the remaining Condominium Units of the Project, including those damaged Units which may be made tenantable, as a Condominium in the manner provided in this Declaration.

(3) In the event that the Association determines that it is not reasonably practicable to operate the undamaged Condominium Units and the damaged Units which can be made tenantable, then the Condominium Project shall be deemed to be regrouped and merged into a single estate owned jointly in undivided interest by all Owners, as tenants in common, in the proportionate ownership interest previously owned by each Owner in the Common Elements.

(4) In the event that the Association determines it will be reasonably practicable to operate the undamaged Condominium Units and the damaged Units which can be made tenantable as a Condominium Unit, then the damages and awards made with respect to each Unit which has been determined to be capable of being made tenantable shall be applied to repair and to reconstruct such Condominium Unit so that it is made tenantable. The restoration shall be performed in accordance with this Declaration and the original Plans and specifications, unless other action is approved by holders of mortgages on the remaining Units which have at least fifty-one percent (51%) of the votes in the Association. If the cost of such work exceeds the amount of the award, the additional funds required shall be assessed against those Condominium Units which are tenantable. With respect to those Units which may not be tenantable, the award made shall be paid as set forth in Subparagraphs 6.1b(2)(a) through (d) hereof; and the remaining portion of such Units, if any, shall become part of the Common Elements. Upon the payment of such award for the account of such Owner as provided herein, such Condominium Unit shall no longer be a part of the Condominium Project, and the proportionate ownership interest in the Common Elements appurtenant to each remaining Condominium Unit which shall continue as part of the Condominium Project shall be equitably adjusted to distribute the ownership of the undivided interest in the Common Elements among the reduced number of Owners based

upon the square footage of the individual remaining Units in proportion to the total square footage of all the remaining Units.

(5) If sixty-six and two-thirds percent (66-2/3%) or more of the Condominium Units are taken or damaged by such taking, all damages and awards shall be paid to the accounts of the Owners of Units, as provided herein; and this Condominium Regime shall terminate upon such payment. Such termination of condominium status shall require the approval of the Mortgagees as provided in Paragraph B.1C herein. Upon such termination, the Condominium Units and Common Elements shall be deemed to be regrouped and merged into a single estate owned in undivided interest by all Owners as tenants in common in the proportionate ownership interest previously owned by each Owner in the Common Elements. The Owners representing an aggregate ownership interest of sixty-seven percent (67%) of the Common Elements and holders of first mortgages on Units which have at least sixty-seven percent (67%) of the votes on Units subject to first mortgages may agree that the Property should be sold. In such instance, the Association shall record a notice setting forth such fact or facts, and upon the recording of such notice by the Association's authorized officers, the entire Premises shall be sold by the Association, as Attorney in Fact, for all of the Owners, free and clear of the provisions contained in the Declaration, the Plat and the By-Laws. The sales proceeds shall be apportioned between the Owners and First Mortgagees as their interests may appear on the basis of each Owner's proportionate ownership interest in the regrouped estate. Any damages, awards, or sales proceeds provided in this paragraph to be paid to or for the account of any Owner by the Association shall be applied as set forth in Subparagraphs 6.1b(2)(a) through (e) hereof.

ARTICLE VIIPROTECTION OF MORTGAGEE

7.1 NOTICE TO ASSOCIATION. An Owner who mortgages his Unit shall notify the Association, giving the name and address of his Mortgagee. Each Mortgagee shall be permitted to notify the Association of the fact that such Mortgagee holds a deed of trust or mortgage on a Condominium Unit. The Board shall maintain such information in a book entitled "Mortgagees of Condominium Units".

7.2 NOTICE OF DEFAULT; LAPSE IN INSURANCE. The Association shall notify a First Mortgagee in writing, upon written request of such Mortgagee identifying the name and address of the Mortgagee and the Unit number, of any default by the Mortgagor in the performance of such Mortgagor's obligations, as set forth in this Declaration, which is not cured within sixty (60) days. The Association, upon written request, shall notify a First Mortgagee of any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association.

7.3 EXAMINATION OF BOOKS. The Association shall permit First Mortgagees to examine the books and records of the Association upon request.

7.4 RESERVE FUND. The Association shall establish adequate reserve funds for replacement of Common Element components and fund the same by regular monthly payments rather than by extraordinary special assessments. In addition, there shall be established a working capital fund for the initial operation of the Condominium Project equal to at least two (2) months' estimated Common Assessments charge for each Unit, said deposit to be collected at closing of Unit sale.

7.5 ANNUAL AUDITS. Upon written request the Association shall furnish each First Mortgagee an annual audited financial statement of the Association within ninety (90) days following the end of each fiscal year of the Association.

7.6 NOTICE OF MEETINGS. The Association shall furnish each First Mortgagee upon request of such Mortgagee, prior written notice of all meetings of the Association and permit the designation of a representative of such Mortgagee to attend such meetings, one (1) such request to be deemed to be a request for prior written notice of all subsequent meetings of the Association.

7.7 NOTICE OF DAMAGE OR DESTRUCTION. The Association shall furnish the First Mortgagees timely written notice of any substantial damage or partial destruction of any Unit on which the First Mortgagee holds the mortgage if

such loss exceeds One Thousand Dollars (\$1,000.00) and of any part of the Common Elements if such loss exceeds Ten Thousand Dollars (\$10,000.00).

7.8 MANAGEMENT AGREEMENTS. Any management agreement and/or service contract entered into by the Association will be terminable by the Association without cause and without payment of a termination fee upon ninety (90) days' written notice or with cause upon thirty (30) days' written notice, and the term of such management agreement will not exceed the period of three (3) years, renewable by agreement of the parties to such agreement for successive one (1)-year periods. In the event of the termination of the management agreement, as provided herein, the Association shall enter into a new management agreement with a new management agent prior to the effective date of the termination of old management agreement. Any decision to establish self-management by the Owners Association shall require the prior consent of Owners of Units to which at least sixty-seven percent (67%) of the votes are allocated and the approval of first mortgage holders holding mortgages on Units which have at least fifty-one percent (51%) of the votes of the Association.

7.9 TAXES, ASSESSMENTS AND CHARGES. All taxes, assessments and charges which may become liens prior to the First Mortgage under local law shall relate only to the individual Condominium Units and not to the Condominium Project as a whole.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1 AMENDMENTS TO DECLARATION; APPROVAL OF OWNERS AND MORTGAGEES.

a. The consent of the Owners of Units to which at least sixty-seven percent (67%) of the votes in the Association are allocated and the approval of First Mortgagees holding mortgages on Units which have at least fifty-one percent (51%) of the votes of Units subject to mortgages shall be required to add or amend any material provisions to this Declaration or to the By-Laws including those provisions which provide for, govern or regulate any of the following:

- (1) Voting;
- (2) Assessments, encumbrance liens or subordination of such liens;

(3) Reserves for maintenance, repair and replacement of the Common Elements;

(4) Insurance or fidelity bonds;

(5) Rights to use of the Common Elements;

(6) Responsibility for maintenance and repair of the Units and Common Elements;

(7) Expansion of the Project;

(8) Boundaries of any Unit, except as provided in Paragraph 2.10 herein;

(9) Convertibility of Units into Common Elements, or Common Elements into Units;

(10) Leasing of Units;

(11) Imposition of any right of first refusal or similar restriction on the right of a Unit Owner to sell, transfer, or otherwise convey his Unit;

(12) A decision by the owners' association to establish self management when professional management had been required previously by an eligible mortgage holder;

(13) Restoration or repair of the project (after a hazard damage or partial condemnation) in a manner other than that specified in the documents;

(14) Any action to terminate the legal status of the project after substantial destruction or condemnation occurs; or

(15) Any provisions which are for the express benefit of first mortgage holders, insurers, or guarantors of first mortgages.

b. The consent of Owners of Units to which at least sixty-seven percent (67%) of the votes in the Association are allocated and the approval of First Mortgagees holding mortgages on Units which have at least sixty-seven percent (67%) of the votes of Units subject to Mortgages, shall be required to:

(1) partition or subdivide any Unit. In addition to the approval of the Owner, the approval of any mortgage holder, if any, must be obtained;

(2) by act or omission, seek to abandon, partition, subdivide, encumber, or transfer the Common Elements, other than the granting of easements for public utilities or other public, uses except where a greater percentage is required, as provided in Paragraph 3.2 hereof, or by the Act; or

(3) use hazard insurance proceeds for losses to any condominium property for other than the repair, replacement or reconstruction of such property, except as provided by statute in the case of substantial loss, and as provided in Paragraph 6.1b(3).

c. The consent of Owners of Units to which at least one hundred percent (100%) of the votes of the Association are allocated and the approval of First Mortgagees holding mortgages on Units which have at least sixty-seven percent (67%) of the votes of Units subject to mortgages shall be required to terminate or abandon the condominium status of the Project by act or omission, except where a different percentage is mandated by the Act in the event of a termination due to destruction or condemnation.

d. Any amendment which would change the percentage or fraction of interest of the Unit Owners in the Common Elements, will require the consent of Owners of sixty-seven percent (67%) of the votes allocated in the Association and the approval of First Mortgagees holding mortgages on Units which have at least fifty-one percent (51%) of the votes of Units subject to mortgages, provided that the change of percentage or fraction of ownership must have the approval of each Unit Owner affected by said amendment.

e. Any amendment to the Declaration must be approved by the requisite percentages of ownership interest at a meeting called by the Association, so long as such meeting is required by law. Should the meeting requirement not be mandated by law, an amendment may be effected with the certification by the Secretary of the Association that the necessary Owner approval was obtained, or by obtaining the signatures of the Owners who hold the requisite percentage ownership.

f. No amendment to the Declaration may alter or destroy a Unit or a Limited Common Element without the consent of the Owners affected and the Owners' First Mortgagees.

g. Any First Mortgagee who receives a written request to approve additions or amendments to the Declaration or By-laws, and who does not deliver or post to the requesting party a negative response within thirty (30) days, shall be deemed to have approved such request. The Association shall give timely written notice to all First Mortgagees of any proposed action which would require the consent of a specified percentage of First Mortgagees.

h. Unless otherwise provided in this Paragraph 8.1 or elsewhere in this Declaration, any of the provisions herein may be amended by the consent of Owners of Units to which at least sixty-seven percent (67%) of the votes in the Association are allocated, provided that:

(i) No amendment shall affect the rights given to the Declarant, herein, without the consent of the Declarant;

(ii) No action to challenge the validity of an amendment adopted by the Association under this section or Paragraph 8.2 may be brought more than one (1) year after the amendment is recorded; and

(iii) To be effective, each amendment to the Declaration must be in writing, signed and acknowledged by the Board, indicating the required approval of such Owners and/or Mortgagees, or by the Declarant in the case of an amendment pursuant to Paragraph 8.2. Any such instrument shall be duly recorded in the Condominium Records of Galveston, Texas.

8.2 CORRECTION OF ERROR. Declarant reserves, and shall have the continuing right, until the end of the Construction Period, without the consent of the other Owners or any Mortgagee to amend this Declaration or the By-Laws for the purpose of resolving or clarifying any ambiguities or conflicts herein, or correcting any inadvertent misstatements, errors or omissions herein, or to comply with the requirements of Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Veterans Administration or Federal Housing Administration, as allowed by law.

8.3 OWNERSHIP OF COMMON PERSONAL PROPERTY. Upon termination of the Construction Period, as defined herein, Declarant shall execute and deliver a bill of sale to the Association transferring all items of personal property located on the Premises, furnished by Declarant, and intended for the common use and enjoyment of the Condominium Unit Owners and occupants. No Owner shall have any other interest and right thereto, and all such right and interest shall absolutely terminate upon the Owner's termination of possession of his Condominium Unit.

8.4 CHANGE IN DOCUMENTS. Upon written request, the holder of any mortgage covering any of the Condominium Units shall be entitled to written notification from the Association thirty (30) days prior to the effective date of any change in the Condominium documents.

8.5 NOTICE. All notices, demands or other notices intended to be served upon an Owner shall be sent by ordinary or certified mail, postage prepaid, addressed in the name of such Owner in care of the Unit number and Building address of such Owner. All notices, demands or other notices intended to be served upon the Board of Directors of the Association or the Association, shall be sent by ordinary or certified mail, postage prepaid, to 7312 Seawall Boulevard, Galveston, Texas, 77551, until such address is changed by a notice of address change duly recorded in the Galveston County Condominium Records.

8.6 CONFLICT BETWEEN DECLARATION AND BY-LAWS. Whenever the application of the provisions of this Declaration conflict with the application of any provision of the By-Laws adopted by the Association, the provisions or application of this Declaration shall prevail.

8.7 INVALIDATION OF PARTS. If any of the provisions of this Declaration or any paragraph, sentence, clause, phrase or word or the application thereof in any circumstance be invalidated, such invalidity shall not affect the validity of the remainder of this Declaration and the application of any provision, paragraph, sentence, clause, phrase or word in any other circumstance shall not be affected thereby.

8.8 OMISSIONS. In the event of the omission from this Declaration of any word, sentence, clause, provision or stipulation which shall be necessary for the accomplishment of the intent and purposes hereof, or any part hereof, then such omitted matter shall be supplied by inference and/or by reference to the Act.

8.9 TEXAS CONDOMINIUM ACT. The provisions of this Declaration shall be in addition and supplemental to the Condominium Act of the State of Texas and to all other provisions of law.


8.10 GENDER. That whenever used herein, unless the context shall otherwise provide, the singular number shall include the plural, the plural the singular, and the use of any gender shall include all genders.

IN WITNESS WHEREOF, the Declarant has caused this instrument to be signed, sealed and delivered by its proper corporate officers and its corporate seal to be affixed, this 17 day of May, A.D., 1984.

ATTEST:

LAS PALMAS, INC.


Secretary

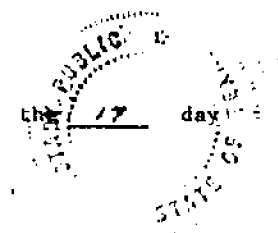
By: 
William L. Payne, President


THE STATE OF TEXAS §

COUNTY OF GALVESTON §

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared William L. Payne, President of Las Palmas, Inc., known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17 day of May, A.D., 1984.




Notary Public in and for
The State of Texas
My Commission Expires: 5-11-85
DOROTHY A. NEUMANN

003-07-0789

THE PALMS CONDOMINIUMS

EXHIBIT "A"

LEGAL DESCRIPTION

A tract out of Lot 126 in Section 1 of the Trimble and Lindsey Survey of Galveston Island, Galveston County, Texas, more fully described by metes and bounds as follows:

BEGINNING at the point of intersection of the West line of said Lot 126 with the North face of the concrete cap of the retaining wall in the Galveston Sea Wall right of way;

THENCE North 25°00'W, along the West line of Lot 126, a distance of 376.67 feet to a point for corner in the Southerly line of Stewart Road;

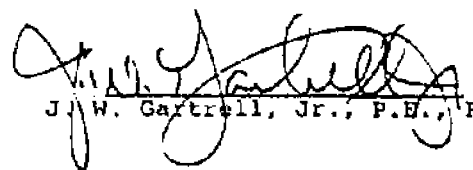
THENCE Northeasterly, along the Southerly line of Stewart Road and along the arc of a curve to the left, having a radius of 1482.72 feet, a distance of 80.21 feet to a point for corner;

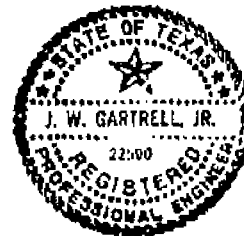
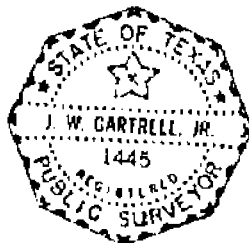
THENCE South 47°01'33"E, a distance of 242.03 feet to an angle point;

THENCE South 31°47'23"E, a distance of 175.00 feet to a point for corner in the North face of said concrete pile cap;

THENCE South 58°12'37"W, along the North face of said concrete pile cap, a distance of 130.55 feet to the place of beginning, containing 55,218 square feet of land, more or less.

May 9, 1984


J. W. Gartrell, Jr., P.E., R.P.S.





FIRST AMENDMENT TO CONDOMINIUM DECLARATION FOR THE PALMS CONDOMINIUMS

STATE OF TEXAS (
COUNTY OF GALVESTON (

We, the undersigned, owning at least sixty-seven percent (67%) of the ownership interests of all of the owners ("Owners") of units ("Units") in The Palms Condominiums in Galveston County, Texas, which is described in the Condominium Declaration ("Declaration") for The Palms Condominiums that is recorded under Microfilm Code No. 003-07-0744 in the Official Public Records of Real Property of Galveston County, Texas, and being at least fifty-one percent (51%) of the first mortgagees ("First Mortgagees") holding mortgages on Units which have at least fifty-one percent (51%) of the votes of Units subject to mortgages, amend the Declaration governing The Palms Condominiums by this First Amendment ("First Amendment") to Condominium Declaration for The Palms Condominiums.

All of the definitions and terms contained in Article I of the Declaration are incorporated herein by reference for all purposes.

Section 2.9 e. (13) of the Declaration is hereby amended by adding the following provisions after the third sentence thereof: "Any Owner who leases or rents a Unit to any lessee or tenant (a) must do so for a term of not less than 90 days, (b) must execute a lease or rental agreement that contains the names and current mailing addresses of such lessees or tenants, and (c) must deliver to the Board of Directors a copy of any lease or rental agreement promptly after the signing of the same is completed; provided, however, that any communication which is given by the Board of Directors to a lessee or tenant will be given on the same day to the Owner who is the landlord of that lessee or tenant."

The first sentence of Section 3.7 of the Declaration is hereby deleted and replaced by the following provision: "An Owner shall maintain and keep in good condition and repair the interior, patio and/or balcony space and storage space of his own Unit, including, but not limited to, the fixtures thereof."

The following sentences are hereby added at the end of Section 3.7 of the Declaration: "In the event an Owner performs maintenance and repair that extends into and necessarily benefits a Common Element and that has been approved by the Association, then the Association reserves the right to reimburse the Owner for the necessary and reasonable cost of the portion of such maintenance and repair that extends into and necessarily benefits such Common Element. If, in order to perform necessary maintenance and repair, an Owner requires access to a Unit which is not owned by that Owner and the Owner requiring access notifies the Association of such requirement, then upon giving reasonable notice to the owner of that other Unit, the Association will have the right to access that other Unit and will have the right to perform such maintenance and repair, at the Association's cost; provided, however, that the Association reserves the right to assess the Owner for that cost."

Section 3.12 of the Declaration is hereby added as follows: "SATELLITE COMMITTEE. A committee consisting of Owners who have satellite television service may be appointed by the Board of Directors from time to time for the purposes of

investigating and making recommendations to Owners of (a) any opportunities, changes, and conditions relating to satellite television service and (b) any repairs and maintenance and the cost thereof with respect to satellite television service that may be necessary or advisable. The cost of any recommendation to which the majority of such committee agrees will be shared pro rata by the Owners who have satellite television service; the Association has no duty or responsibility to pay any cost relating to repairing, maintaining, or changing the satellite television service.”

The following sentence is hereby added at the end of Section 4.1 of the Declaration: “Directors of the Association may cast votes as Directors by any method permitted by the By-Laws, by e-mail, or by other electronic commerce that has been authorized by the Board of Directors of the Association.”

Section 4.2 of the Declaration is hereby deleted and replaced by the following provisions: “ASSOCIATION CONTROL. The Association will have control of the management and administration of The Palms Condominiums.”

Section 4.3 of the Declaration is hereby deleted and replaced by the following provisions: “MANAGING AGENT. The Board of Directors has the right to manage and administer The Palms Condominiums. As an exercise of such right, the Board of Directors may delegate to a management company the right to manage and administer The Palms Condominiums under the supervision and control of the Board of Directors.

Section 4.5 d. of the Declaration is hereby deleted and replaced by the following provisions: “Proxies and Electronic Commerce. Votes may be cast in person, by proxy, or by other electronic commerce that has been authorized by the Board of Directors of the Association. Proxies must be filed with the Secretary before the appointed time of each meeting.”

Section 4.6 d. of the Declaration is hereby deleted and replaced by the following provisions: “The Association will be responsible for obtaining and maintaining insurance upon the General Common Elements and the Limited Common Elements, neither of which includes any fixtures, installations or additions thereto contained within the unfinished interior surfaces of the perimeter walls, floors and ceilings of any Unit, as initially installed or replacements thereof. The Association will not be responsible for obtaining insurance that covers any property other than the General Common Elements and the Limited Common Elements. Furthermore, the Association will not be responsible for procurement or maintenance of any insurance covering the liability of any Unit Owner not caused by or connected with the Association’s operation or maintenance of the Project. Each Unit Owner may obtain additional insurance at his own expense for his own benefit. Moreover, each Unit Owner will be specifically responsible for obtaining and maintaining casualty and public liability insurance coverage in a minimum amount of \$100,000.00 within each Unit and is required to have such insurance; in addition, each Unit Owner must promptly, and by each renewal or expiration date thereof, furnish to the Association a copy of his insurance policy and each renewal or replacement thereof, which policy will contain such minimum amount of required casualty and public liability insurance coverage. If an Owner at any time fails to procure and maintain the required insurance or fails to provide the Association with evidence of such insurance that is satisfactory to the Association, such Owner agrees that (1) the Association may, but has no duty to, place and purchase such required insurance to protect the Association’s interest as the Association may determine in its sole and

uncontrolled discretion, even though such insurance is written at a higher rate than such Owner could obtain if such Owner had purchased the insurance; (2) the Owner will pay to the Association, promptly upon its demand, the cost of any such required insurance that the Association places and purchases; and (3) the cost of any such required insurance will be added to and become a part of the assessment to which such Unit is subject, pursuant to Article V of the Declaration.”

Section 4.6 g. of the Declaration is hereby added as follows: “The Association will have the right at its discretion (a) to increase the amounts of the insurance coverage it provides under this Article IV and (b) to extend the insurance coverage it provides under this Article IV to additional risks.”

Section 4.6 h. of the Declaration is hereby added as follows: “Each Owner will have the right to obtain and maintain insurance covering the Unit against the risks and in the amounts that such Owner may consider to be prudent.”

Section 4.7 of the Declaration is hereby added as follows: “SPECIFIED ACTIONS BY BOARD OF DIRECTORS. The Board of Directors is authorized (a) to bring an action to evict a lessee or tenant of an Owner of a Unit for a violation of the Declaration, by-laws, or rules of the Association by such lessee or tenant; (b) to bring an action to evict a lessee or tenant of an Owner of a Unit who fails to pay the Association for the cost of repairs to Common Elements damaged substantially by the lessee or tenant of an Owner; or (c) to collect rents from a lessee or tenant of an Owner of a Unit who is at least sixty (60) days delinquent in the payment of any amount due to the Association.”

Section 4.8 of the Declaration is hereby added as follows: “STATUTORY POWERS. Nothing in the Declaration will prevent the Association through its Board of Directors from exercising any power now or hereafter provided in the Uniform Condominium Act of the State of Texas.”

Section 5.4 e. of the Declaration is hereby added as follows: “If any monthly assessment is not paid in full and in a timely manner, the Owner will be responsible to pay interest on such unpaid monthly assessment (a) at the initial rate of ten percent (10%) per annum and (b) at such other rate of interest that may be established by the Board of Directors during the fourth quarter of a calendar year, will be effective as of January 1 of the immediately succeeding calendar year, will be at no less than a rate of ten percent (10%) per annum, and will be no greater than a rate of eighteen percent (18%) per annum; provided, however, that no interest or other sum construed to be interest that is contracted for, charged, or received shall exceed the highest lawful rate permissible under the laws applicable to the transaction, and consequently any amount in excess of the highest lawful rate applicable to the transaction shall be automatically reduced to the highest lawful rate applicable to the transaction and shall be refunded to the Owner.”

Section 5.4 f. of the Declaration is hereby added as follows: “In the event any monthly assessment is not paid in full and in a timely manner and the Board of Directors employs an attorney to collect such monthly assessment, the Owner shall be required to pay the reasonable attorney’s fees necessarily incurred with respect to such collection.”

The following provisions are hereby added at the end of Section 5.5 of the Declaration: “If any special assessment is not paid in full and in a timely manner, the Owner will be responsible to pay interest on such unpaid special assessment (a) at the initial rate of ten percent (10%) per annum and (b) at such other rate of interest that may be established by the Board of Directors during the fourth quarter of a calendar year, will

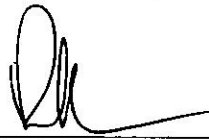
be effective as of January 1 of the immediately succeeding calendar year, will be at no less than a rate of ten percent (10%) per annum, and will be no greater than a rate of eighteen percent (18%) per annum; provided, however, that no interest or other sum construed to be interest that is contracted for, charged, or received shall exceed the highest lawful rate permissible under the laws applicable to the transaction, and consequently any amount in excess of the highest lawful rate applicable to the transaction shall be automatically reduced to the highest lawful rate applicable to the transaction and shall be refunded to the Owner. In the event any special assessment is not paid in full and in a timely manner and the Board of Directors employs an attorney to collect such special assessment, the Owner shall be required to pay the reasonable attorney's fees necessarily incurred with respect to such collection."

Section 8.1 e. of the Declaration is hereby amended by adding the following: "To be effective, additional methods to adopt an amendment to the Declaration are (1) by a written ballot that states the exact wording or the substance of the amendment and that specifies the date by which a ballot must be received by the Association to be counted or (2) at a meeting of the Owners of the Association after written notice of the meeting has been sent to an Owner of each Unit and to each of the First Mortgagees stating that the purpose of the meeting is to consider an amendment to the Declaration."

Section 8.9 of the Declaration is hereby deleted and replaced by the following provision: "TEXAS UNIFORM CONDOMINIUM ACT. As of the effective date of this First Amendment, the Declaration (a) will cease to be governed by the Condominium Act of the State of Texas and (b) will be governed exclusively by the Uniform Condominium Act of the State of Texas, Section 82.001, *et seq.*, of the Property Code, Texas Civil Statutes, and any and all future amendments and successor statutes thereto. The provisions of the Declaration as amended by this First Amendment shall be in addition to and supplemental to the Uniform Condominium Act of the State of Texas and to all other provisions of law."

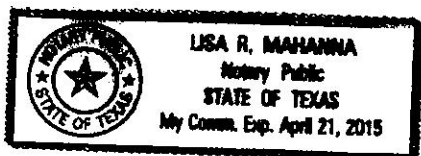
Executed and to be effective on the 14th day of January, 2012, by The Palms Owners Association, Inc., a Texas non-profit corporation, which certifies, by signing below, the adoption of this First Amendment to Condominium Declaration for The Palms Condominiums, by at least 67% of the ownership interests of all of the owners of the Condominium Units in The Palms Condominiums in Galveston County, Texas, including, but not limited to, the undersigned owners of the Condominium Unit Numbers in The Palms Condominiums in Galveston County, Texas which are set forth above each of their respective names; and by at least 51% of the legal and equitable owners and holders of all of the promissory notes secured by first mortgagees' liens on Condominium Units in The Palms Condominiums in Galveston County, Texas, because all of the legal and equitable owners and holders of all of the promissory notes secured by first mortgagees' liens on the Condominium Unit Numbers in The Palms Condominiums in Galveston County, Texas received timely written requests to approve this First Amendment to Condominium Declaration for The Palms Condominiums, none of such first mortgagees delivered or posted to The Palms Owners Association, Inc., any negative response within thirty (30) days, and have been deemed to have approved this First Amendment to Condominium Declaration for The Palms Condominiums.

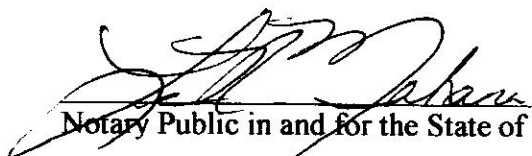
THE PALMS OWNERS ASSOCIATION, INC.
a Texas non-profit corporation

By: 
Frederic Perkins, its President

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 7th day of February, 2012, by Frederic Perkins, the President on January 14, 2012 of The Palms Owners Association, Inc., a Texas corporation, on behalf of said corporation.




Notary Public in and for the State of Texas

Condominium Unit No. 104

[Handwritten Signature]
(Signature)

CLAY A. STERLING
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ^{JANUARY}~~October~~,
²⁰¹²~~2011~~, by [Handwritten Signature] CLAY A. STERLING



[Handwritten Signature]
Notary Public in and for the State of Texas

Philip Hilder, owner of Condominium Unit No. 106

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK POWKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~^{JAN},
~~2011~~²⁰¹², by ~~Donald K Burns~~ RICK POWKINS as proxy on behalf of
PHILIP HILDER



[Signature]
Notary Public in and for the State of Texas

Condominium Unit No. 107

[Signature]
(Signature)

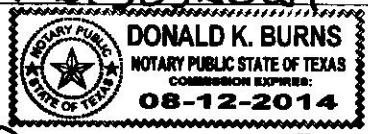
Roy L. Sosnowy
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ^{Jan}~~October~~, ²⁰¹²~~2011~~, by [Signature] Roy L. Sosnowy



[Signature]
Notary Public in and for the State of Texas

Condominium Unit No. 109

[Handwritten Signature]
(Signature)

Ron MOLLARD
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §

COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN.}

²⁰¹²
2011, by ~~Donald K Burns~~ RON MOLLARD



Donald K Burns
Notary Public in and for the State of Texas

Bill Willis, owner of Condominium Unit No. 109

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{Jan},
~~2011~~ ²⁰¹², by ~~Donald K Burns~~ RICK PERKINS as proxy on behalf of
BILL WILLIS



[Signature]
Notary Public in and for the State of Texas

Condominium Unit No. 110

[Signature]
(Signature)

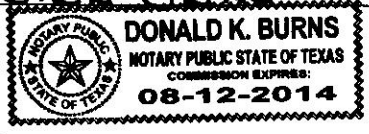
Quinn Clarke
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of Jan ~~October~~, 2012 ~~2011~~, by [Signature] Quinn Clarke



[Signature]
Notary Public in and for the State of Texas

GARY Kruger, owner of Condominium Unit No. 111

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},
~~2011~~ ²⁰¹², by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of
GARY KRUGER



Donald K Burns
Notary Public in and for the State of Texas

JEANNIE Floyd, owner of Condominium Unit No. 1148223

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of July, ~~October~~,

~~2012~~ ²⁰¹² ~~2014~~, by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of

JEANNIE FLOYD



[Signature]
Notary Public in and for the State of Texas

CHERYL Murphy, owner of Condominium Unit No. 116

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK POTKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN} ~~2011~~, by ~~Donald K Burns~~ RICK POTKINS, as proxy on behalf of CHERYL MURPHY.



[Signature]
Notary Public in and for the State of Texas

Condominium Unit No. 117

Diana M. Bailey
(Signature)

Diana M. Bailey
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §

COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JANUARY},
²⁰¹² 2011, by *Donald K Burns* DIANA M BAILEY



Donald K Burns
Notary Public in and for the State of Texas

DAVID Pena, owner of Condominium Unit No. 118

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~^{Jan},
~~2011~~²⁰¹², by ~~Donald K Burns~~ RICK PERKINS as proxy on behalf of
DAVID PENA



[Signature]
Notary Public in and for the State of Texas

Don Wessels, owner of Condominium Unit No. 119

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ Jan,
²⁰¹²
2011, by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of
DON WESSELS



[Signature]
Notary Public in and for the State of Texas

Daryl Eldridge, owner of Condominium Unit No. 120

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{Jan},
~~2011~~ ²⁰¹², by [Signature] ~~Donald K Burns~~ RICK PERKINS as proxy on behalf of

DARYL ELDRIDGE



[Signature]
Notary Public in and for the State of Texas

GILBERTO Arenas, owner of Condominium Unit No. 172

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN.},
2012
~~2011~~, by RICK PERKINS, as proxy on behalf of
GILBERTO ARENAS



[Signature]
Notary Public in and for the State of Texas

DAVID Pena, owner of Condominium Unit No. 123

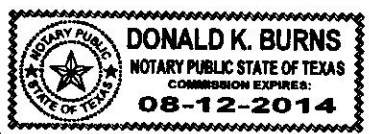
acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ JAN,
²⁰¹²₂₀₁₁, by ~~Donald K Burns~~ RICK PERKINS as proxy on behalf of
DAVID PENA



[Signature]
Notary Public in and for the State of Texas

RICHARD & MURIEL Christensen, owner of Condominium Unit No. 124

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ^{Jan}~~October~~,
²⁰¹²~~2011~~, by RICK PERKINS, as proxy on behalf of
RICHARD & MURIEL CHRISTENSEN.



[Signature]
Notary Public in and for the State of Texas

Condominium Unit No. 125

Don K Burns
(Signature)

DON K BURNS
(Print Name)

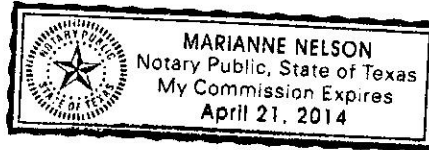
(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JANUARY} 2011, by Donk Burns

Marianne Nelson
Notary Public in and for the State of Texas



Condominium Unit No. 201

[Handwritten Signature]
(Signature)

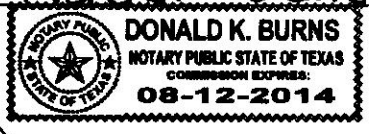
Adolf Schulz
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

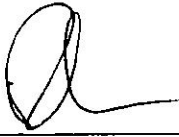
This instrument was acknowledged before me on the 14 day of ^{Jan} ~~October~~,
2012
2011, by [Handwritten Signature] ADOLF SCHULZ.



[Handwritten Signature]
Notary Public in and for the State of Texas

James & Julie Senger, owner of Condominium Unit No. 202

acting by and through the undersigned proxy:



(Signature)

RICK PERKINS

(Print Name)

STATE OF TEXAS

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§
§

COUNTY OF GALVESTON

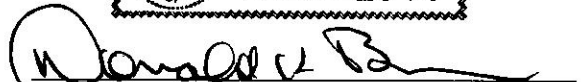
This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},

~~2011~~
2012

by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of

JAMES & JULIE SENGERS




Notary Public in and for the State of Texas

MARY & TERESA Tantillo, owner of Condominium Unit No. 203

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},
2012
~~2011~~, by [Signature] RICK PERKINS, as proxy on behalf of
MARY & TERESA TANTILLO



[Signature]
Notary Public in and for the State of Texas

JAMES & GLENDA Knoll, owner of Condominium Unit No. 204

acting by and through the undersigned proxy:



(Signature)

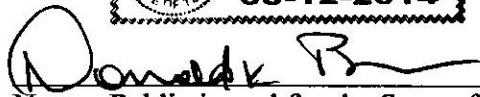
RIK PERKINS

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},
²⁰¹²
~~2011~~, by ~~Donald K Burns~~ RIK PERKINS, as proxy on behalf of

JAMES & GLENDA Knoll



Notary Public in and for the State of Texas

Condominium Unit No. 205

[Signature]
(Signature)

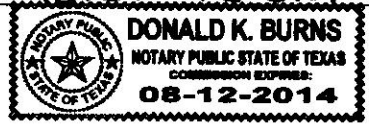
RICK PERKINS
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN}
²⁰¹²~~2011~~, by [Signature] RICK PERKINS



[Signature]
Notary Public in and for the State of Texas

Condominium Unit No. 206

Lary A Dorrington
(Signature)

Lary A Dorrington
(Print Name)

Beverly W. Dorrington
(Signature)

Beverly W Dorrington
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{January}, 2012, by Donald K Burns BEVERLY W. DORRINGTON & LARY A DORRINGTON.



Donald K Burns
Notary Public in and for the State of Texas

SUSAN McChesney, owner of Condominium Unit No. 210

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ^{Jan}~~October~~,
²⁰¹²~~2011~~, by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of
SUSAN McCHESNEY



[Signature]
Notary Public in and for the State of Texas

PHILIP Hilder, owner of Condominium Unit No. 211

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~^{Jan.},
~~2011~~²⁰¹², by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of
PHILIP HILDER.



Donald K Burns
Notary Public in and for the State of Texas

Condominium Unit No. 212
112
225

[Signature]
(Signature)

Mark Stroel
(Print Name)

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JANUARY},
2012, by Donald K Burns RICK PERKINS & MARK STROEL



Donald K Burns
Notary Public in and for the State of Texas

Condominium Unit No. 214

Mary Lou Laursen
(Signature)

Mary Lou Laursen
(Print Name)

(Signature)

(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN.},
²⁰¹²
2011, by ~~Donald K Burns~~ MARY LOU LAURSEN



Donald K Burns
Notary Public in and for the State of Texas

Mark Kirby, owner of Condominium Unit No. 216

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ JAN,
²⁰¹²~~2011~~, by ~~Donald K Burns~~ RICK PERKINS, as proxy on behalf of
MARK KIRBY



[Signature]
Notary Public in and for the State of Texas

Vasdev & Veer Bhagia, owner of Condominium Unit No. 217

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS

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§
§

COUNTY OF GALVESTON



This instrument was acknowledged before me on the 14 day of ^{Jan}~~October~~, ²⁰¹²~~2011~~, by RICK PERKINS, as proxy on behalf of Vasdev & Veer BHAGIA.

[Signature]
Notary Public in and for the State of Texas

Terry Michela, owner of Condominium Unit No. 218

acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},
²⁰¹²₂₀₁₁, by RICK PERKINS, as proxy on behalf of
TERRY MICHELA



[Signature]
Notary Public in and for the State of Texas

BENNIE & JANELLE ROBINSON, owner of Condominium Unit No. 220

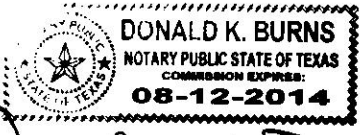
acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{Jan},
2011, by RICK PERKINS, as proxy on behalf of
BENNIE & JANELLE ROBINSON.


Donald K Burns
Notary Public in and for the State of Texas

Condominium Unit No. 221

Larry Williams
(Signature)

LARRY & CINDY WILLIAMS
(Print Name)

Cindy Williams
(Signature)

CINDY WILLIAMS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ^{Nov}~~October~~,
²⁰¹²~~2011~~, by Donald K Burns ^{WILLIAMS &} LARRY & CINDY WILLIAMS



Donald K Burns
Notary Public in and for the State of Texas

Condominium Unit No. 222

[Signature]
(Signature)

CAMY WILLIAMS
(Print Name)

[Signature]
(Signature)

CINDY WILLIAMS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},
²⁰¹² 2011, by [Signature] ^{WILLIAMS} LARRY & CINDY WILLIAMS



[Signature]
Notary Public in and for the State of Texas

William Junico, owner of Condominium Unit No. 224

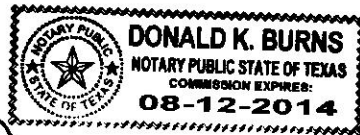
acting by and through the undersigned proxy:

[Signature]
(Signature)

RICK PERKINS
(Print Name)

STATE OF TEXAS §
 §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on the 14 day of ~~October~~ ^{JAN},
~~2011~~ ²⁰¹², by RICK PERKINS, as proxy on behalf of
William JUNICO



[Signature]
Notary Public in and for the State of Texas

FILED AND RECORDED



OFFICIAL PUBLIC RECORDS

[Signature]
2012007466

February 14, 2012 04:55:34 PM

FEE: \$170.25

Dwight D. Sullivan, County Clerk
Galveston County, TEXAS

PALMS CONDOMINIUMS, INC.
Galveston, Texas
Rules and Regulations
The Palms Owners Association, Inc.

The following are the Rules and Regulations of The Palms Owners Association, Inc. (Association) as authorized in paragraph 2.4 of the Condominiums Declaration of The Palms Condominiums which was originally executed May 17, 1984, for the Condominium regime located at 7312 Seawall Boulevard in the City of Galveston, Texas. The Rules and Regulations are applicable to all Common Areas (e.g., porch, parking area, balcony, or storage locker). All owners are responsible to the Association for compliance with the rules by themselves, members of their families, relatives, guests, invitees, employees, tenants, or lessees. Rental units must have these rules posted inside the unit. Enforcement of these rules shall be the responsibility of the Board of Directors (Board) or its agents.

1. All common sidewalks, stairways, driveways, entrances or hallways shall not be obstructed or used by an unit Owner or occupant for any purpose other than ingress to and egress from the units.
2. Common areas including all sidewalks, stairways, driveways, entrances or hallways shall not be used as a play area. Running, roller skating, roller blading, skate boarding, bicycle riding, motorized toys and all other such activities are prohibited.
3. Articles shall not be stored, placed, or allowed to remain in or on common sidewalks, stairways, driveways, entrances, hallways or water heater closets.
4. Brown, white, or green rust proof personal outdoor furniture, decorative live plants with their rust proof containers and stands, flags, and wind ornaments are the only items that may be placed or stored in exterior Limited Common Areas. Outdoor furniture includes only tables that seat 2 along with 2 chairs. The owner is responsible for placing personal outdoor items in their unit if they will be absent for more than 2 days. The association is not responsible for damaged or missing items.
5. Clothing or other articles shall not be hung on or from windows, doors, railings, or walls of Limited Common Areas or Common Area.
6. Owners and occupants shall exercise reasonable care to avoid any action, such as making or permitting to be made any noises or noxious odors that may disturb or interfere with the rights, comfort or convenience of occupants of other units.
7. No work, modification or decoration of any kind shall be done by Owners or occupants upon the exterior building walls or roof or upon any Common or Limited Common elements without the prior written approval of the Board.
8. No shade, awning, ventilator, fan, speaker, antenna or other article or device shall be installed on or used in the exterior Limited Common Area without the prior written approval of the Board.
9. Garbage and trash shall be disposed of by the Owner or occupant by use of common trash dumpster only.
10. Vehicles shall be parked only in designated and assigned parking areas and in such a manner as to not impede access to any entrance or exit to the property, storage areas, or access to adjacent parking areas. Violations may result in the vehicle(s) being towed at the owner's expense.
11. Assigned parking areas shall not be converted to living or business purpose.
12. Each owner is responsible for care and maintenance of their own air conditioning compressor in the garage area, and for any damage caused by said compressor. Owners are to clearly mark their condo unit number on their compressor. Only rust proof hanger components are to be used.
13. No animals, livestock, reptile or poultry of any kind shall be raised, bred, or kept in any Unit or the Common Area. Household pets, limited to dogs, cats, fish or birds, may be kept in units. However, for pets other than fish and birds, the Association discourages the practice. No guest or tenant may keep pets in Unit. Owners and owners guests keeping pets in their units are subject to the following conditions:
 - a. An Owner may keep no more than two pets (dogs or cats) in a unit. Pets must be collared and tagged with proper identification and proof of vaccination.
 - b. No pet shall be allowed in the Common Area unless carried or on a leash, held by a person capable of controlling the pet. [The Board realizes that the pool area is a thoroughfare between the parking garage and living units.] Animals traveling to or from the garage area must be leashed or held, as outlined above, and may not linger in the pool area. The pet relief station is on the West side of the building.

The Palms Condominiums Rules and Regulations

- c. Any Owner keeping a pet shall be absolutely liable to each and all other Owners, guests, tenants, or invitees for unreasonable noise and damage to person or property caused by that pet.
 - d. Pets that are the subject of repeated written complaints by other Owners, or which threaten the safety or any occupant or visitor, may be deemed a nuisance by the Board and reported to the City of Galveston Health Department.
14. The use or storage of any hazardous substance, flammable liquid, explosive, or pesticide in The Palms Condominiums is prohibited, except for use during maintenance or repairs.
 15. Outside cooking and the use of cooking devices is allowed in the designated barbecue area near the pool, but is prohibited in or on the Limited Common Areas.
 16. No Owner or occupant shall do or keep or permit to be done or kept in a Unit or in the Common Areas anything that would increase the risk to others or potentially create a structural hazard or damage the Structure or which would cause the insurance rate to be increased.
 17. Use of the pool and spa shall be in strict accord with posted pool and spa rules outlined by the City of Galveston Health Code and adopted by the Board. The pool shall be heated as follows:
Weekends 9⁰⁰15-12⁰⁰25 and 3⁰⁰1-5⁰⁰15
Unless management deems the weather will be inclement.
 18. The Association shall retain a passkey to all units for the purpose of emergency access. No Owner shall alter or add any lock on any door to a Unit without prior written approval of the Board. The Owner shall provide a duplicate key to the Association for any approved lock change.
 19. Palms Condominium unit owners are prohibited from leasing or renting their unit for any period of time less than 90 days. Violation of this rule will result in a \$2,500.00 fine.
 20. Trespassing within limited common spaces such as assigned parking areas, patios and balconies shall not be allowed.
 21. Payments of the monthly assessment received after the 15th of the month will be assessed a \$35.00 late fee. Invoices are not mailed but are emailed monthly. A yearly statement is provided upon purchase and in December for the following year.
 22. Fines for noncompliance issues:

First Offense	-	warning
2 nd Offense	-	\$25.00
3 rd Offense	-	\$100.00
Subsequent	-	To be determined by the Board
 23. Open Houses
All open houses must be scheduled through the property management company.
Only one open house may be scheduled per day.
No signs of any kind may be adhered to the premises or to any item on the premises.
A "gate keeper" must be at the walk-in gate at all times. Under no circumstances may the gate be left open.
Fines: 1st offense - \$100, 2nd offense - \$200
 24. Any changes to the windows and shutters must be approved by the board of directors.
 25. Stairwell doors and windows are to remain closed at all times.

These Rules and Regulations may be revised at any time by the Board of Directors or the General Membership of The Palms Owners Association, Inc. Changes to or deletion of one or more of the rules does not affect the remaining rules, which are enforce until changed or deleted.

Reviewed and revised by the Board of Directors of The Palms Condominium Association, Inc. on January 19, 2008.

Managed by:
Houston Community Management Services
17049 El Camino Real, Suite 100
Houston, Texas 77058
832-864-1200 Phone
1-800-568-6807 Toll Free
281-218-6973 Fax

MANAGEMENT AGREEMENT

PARTIES.

THIS AGREEMENT, signed and made effective as of the 1st day of October, 2009 with services scheduled to commence on the 1st day of October, 2009 is by and between THE PALMS OWNERS ASSOCIATION, Galveston, Texas, hereinafter called "Association," and HOUSTON COMMUNITY MANAGEMENT SERVICES, a Texas corporation, with its principal office at 17049 El Camino Real, Suite 100, Houston, Texas 77058, hereinafter called "Managing Agent."

In consideration of the terms, conditions, and covenants hereinafter set forth, the Association and the Managing Agent mutually agree as follows:

APPOINTMENT:

The Association hereby appoints Managing Agent and Managing Agent hereby accepts the appointment on the terms and considerations hereinafter provided as exclusive Managing Agent of the Association.

LIMITATION OF AUTHORITY:

It is understood and agreed that the authority of duties conferred upon Managing Agent hereunder is herein defined.

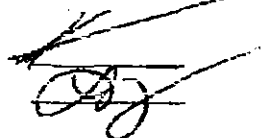
MANAGING AGENT'S DUTIES:

Managing Agent is hereby authorized and shall render services and perform duties of the Association, under the general supervision of the Board of Directors of the Association, hereinafter called "Board," as follows:

General

1. Establish liaison with contractors for corrective work on common elements.
2. Inventory all furniture, equipment, significant tools and supplies of Association, or shall recommend purchase of it where necessary and provide Board with copy of inventory.
3. Maintain business-like relations with owners/tenants, whose service requests shall be received, considered, and responded to promptly and efficiently. Requests or complaints, which are deemed extraordinary by Managing Agent, shall, after thorough investigation, be reported to the Board with appropriate recommendations.

INITIALS

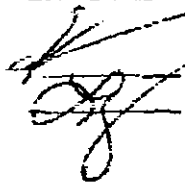


4. Recruit, hire, train, supervise and discharge all Managing Agent Project personnel, if applicable. Association covenants and agrees that it will not (without Managing Agents prior written consent) hire, as employee, contractor or consultant, any current or former employee of Managing Agent for at least twelve (12) months following termination of this Agreement.
5. Conduct periodic physical inspections of the property, but in no event, less than twice per month.
6. Subject to availability of funds of Association, maintain common elements of Project in accordance with reasonable standards acceptable to the Board.
7. Negotiate and make contracts for services, including utilities, trash removal, lawn maintenance, pest control, lake maintenance and such other contract services as may be necessary and advisable.
8. For any one item of repair or replacement, the expenses incurred shall not exceed the sum of \$ 750.00, unless specifically authorized by the President or Treasurer, or a Director if the President or Treasurer are absent; excepting however, that emergency repairs involving manifest danger to life or property, or immediately necessary for the preservation and safety of the Project, or for the safety of the occupants, or required to avoid suspension of any necessary service to the Project may be made by the Managing Agent, irrespective of the cost limitation imposed by this paragraph.

Fiscal and accounting services for the Project shall include the following:

1. Prepare a proposed Annual Budget at least sixty (60) days prior to the end of the fiscal accounting year, which will serve as the basis for monthly assessments and expenditures for the ensuing year, once adopted by the Board ("Approved Budget").
2. Prepare and distribute monthly computerized financial statements to the Board.
3. Prepare and distribute annual financial reports to all owners, upon request of Board.

INITIALS

Handwritten initials, possibly "KJ", written in black ink. A dashed line extends from the word "INITIALS" to the initials.

4. Prepare correspondence and reports regarding finances as requested by the Board. It is understood and agreed that all financial reporting other than routine monthly financial reports will be prepared at an additional fee to be mutually agreed upon between the Principal Parties.
5. Assist in performance of audits in consonance with auditor appointed by the Board with any related clerical, secretarial, or accounting services requested by said auditor, to be billed at the additional hourly rate as per Exhibit A.
6. Prepare and maintain accurate payroll time sheets for all on-site Project personnel employed by HOUSTON COMMUNITY MANAGEMENT SERVICES. Such compensation (including fringe benefits) payable to HOUSTON COMMUNITY MANAGEMENT SERVICES Project personnel shall be reimbursed to Managing Agent by Association and shall include reimbursement for all local, state, and federal taxes and other assessments (including, but not limited to Social Security taxes, federal unemployment insurance, state unemployment insurance, workers' compensation insurance, general liability coverage, and payroll computerization costs) incidental to the employment of such personnel. Such reimbursement for all local, state, and federal taxes and other assessments (as further described immediately above) will be treated as an expense of the Association, and shall be calculated at the fixed payroll cost factor of .3899 (an increase of 38.99%) times gross compensation (which shall include wages or salary, group health insurance and any other fringe benefits provided to employee). The sum total of gross compensation plus the amount due for local, state, and federal taxes and other assessments shall equal that total reimbursement due from the Association.

Illustration:

\$150.00	Gross Compensation to Employee
<u>x 38.99%</u>	Payroll Cost Factor
\$ 58.49	Amount due for local, state, and federal taxes and other assessments (as further described above)

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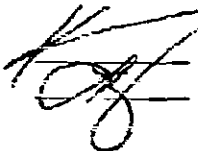
\$150.00 (gross compensation) + \$58.49 (amount due for taxes and other assessments) = \$208.49 (TOTAL REIMBURSEMENT DUE FROM ASSOCIATION)

7. Prepare payroll checks on a timely basis for all on-site Project personnel (if any).
8. All employees working on the property will be bonded employees of the Managing Agent and the Managing Agent will pay all such employee costs. Managing Agent will be reimbursed for total payroll costs by the Association; however, it will be the Managing Agent's responsibility to fund all group insurance, FICA, etc., from funds reimbursed by the Association.
9. Employees of Managing Agent who will have authority to draft checks, issue receipts for cash or handle funds belonging to the Association shall be bonded in an amount not less than \$150,000.00.
10. Everything done by the Managing Agent under the provisions of this Agreement shall be done as agent of the Association, and all obligations or expenses incurred thereunder, shall be for the account, on behalf, and at the expense of the Association, except that the Association shall not be obligated to pay the overhead expense of the Managing Agent's office. Any payments to be made by the Managing Agent hereunder shall be made out of such sums as are available in the account of the Association, or as may be provided by the Association. The Managing Agent shall not be obligated to make any advance to or for the account of the Association or to pay any sum, except out of funds held or provided as aforesaid, nor shall the Managing Agent be obligated to incur any liability or obligation for the account of the Association without assurance from Board that the necessary funds for the discharge thereof will be provided in a timely fashion.

Agent is required to assist the Association in matters relating to protection of the Project against risks as follows:

1. Recommend insurance coverage as are required to protect the Project.
2. Prepare insurance specifications for bid proposals, and secure bids under direction of the Board.

INITIALS

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3. Place insurance coverage for fire, general liability, fidelity bonds, statutory and other approved forms of insurance coverage.
4. Assist in processing insurance claims against the Property.
5. Establish and maintain current insurance ticklers for timely renewals of insurance policies, related to common elements.

Meetings - Board of Directors, Annual Meetings of the Association of Owners, and Special Meetings:

1. Managing Agent shall prepare and mail notices, proxies, ballots, and agendas in accordance with the requirements and provisions of the Declaration and the By-Laws of the Association. Such notices shall be at the Association's expense, as outlined on Exhibit A.
2. Duplication and mailing of notices of meetings, agendas, ballots, proxies, minutes, officers' reports, etc., shall be at the expense of the Association, as outlined on Exhibit A.
3. Prepare, and present for approval, reports such as financial, contractual, operational and other of a regular nature as required by the Association.
4. Arrange for and schedule places, dates and times for the conduct of meetings called by the Board.
5. Special reports shall be prepared in accordance with requests by the Board, at a charge to be mutually agreed upon.
6. Managing Agent will be required to attend no more than eleven meeting of the Board of Directors per year and one general membership meeting per year, a total of 12 meetings per year. Meetings may not exceed 2.5 hours in duration or adjourn past 9:00 p.m. Agent may charge the Association at the rate of \$75.00 per hour for meetings outside the scope of this agreement.
7. Should Managing Agent be required to provide assistance to Association in preparation for or with testimony in connection with a lawsuit, Managing Agent may charge Association as per schedule of rates noted on Exhibit A.

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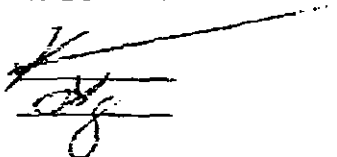
Records and Correspondence

1. Managing Agent shall maintain all financial records of the Association and its members.
2. Managing Agent shall prepare resale certificates, statements of account, and other related items and shall record changes of ownership upon receipt of advice of owners, with supporting documentation, for a fee not to exceed Managing Agent's current published rates for such service at the time of service, which fees shall be paid by the seller/grantor of the Unit. In the event of transfer of deed through foreclosure sale, transfer fee shall be immediately due and payable by mortgagee or other grantee then receiving trustee's deed to property as a result of said sale.
3. Managing Agent shall maintain complete files for all correspondence relating to Association.
4. Managing Agent shall duplicate and mail to all owners, as requested by the Board, periodic newsletters covering specific topics of interest to owners of the Project to be prepared, duplicated and mailed at the expense of the Association.
5. All requests for duplication of additional copies of Project documents, correspondence, reports, etc., shall be at the expense of the requesting party.
6. All records, letters and memorandums relating to the operation of the Association will remain the property of the Association and shall be kept on the Project premises or at Managing Agent's office or contract storage facility and shall not be removed from those premises. Storage of Association's historical records shall be at the expense of Association.

UNDISCLOSED
FEES:

Managing Agent agrees not to collect or charge any undisclosed fees, rebates, or discounts; and in the event that any should be collected by Managing Agent, such becomes the property of the Association and shall be credited to the Association's account.

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FORMS, REPORTS
AND RETURNS

REQUIRED BY LAW: (N/A) Relative to on-site Project personnel employed by Houston Community Management, Managing Agent shall prepare for execution and filing all forms, reports and returns required by law in connection with unemployment insurance, worker's compensation, social security and other similar requirements now in effect or hereafter imposed, and also requirements relating to the actual employment of personnel, all as set forth by the local, State, and Federal governments.

Preparation of audits, the preparation and the filing of State and Federal Income Tax Returns, preparation and the filing of Corporate Franchise Tax Returns, and the preparation and filing of Internal Revenue Service Form 1099 and related transmittals, together with any other forms, reports, or returns related to the property, all as now in effect and required or hereinafter imposed by local, State, or Federal law or by those documents governing the rights, duties, and responsibilities of the Association and its members, shall be a separate and additional expense of the Association and not chargeable to Managing Agent.

BANK ACCOUNTS: Managing Agent shall maintain a separate bank account or accounts in banks whose deposits are federally insured or in Board-approved securities accounts, in a manner to indicate the custodial nature thereof, for the deposit of the monies of the Association and to draw thereon for any payments to be made by the Managing Agent to discharge any liabilities or obligations incurred pursuant to this Agreement.

COLLECTION OF
MAINTENANCE FEES:

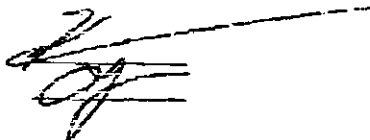
The Board shall determine the official date of commencement of the assessment collections, and shall notify the Managing Agent in writing of the established date.

Upon the establishment of the official commencement date, all owners of record, whether occupying Units or not, shall be responsible for the payment of established assessment.

The Association hereby authorizes the Managing Agent to request, demand, collect, receive and receipt for any and all charges or assessments which may at any time be or become due to the Association.

Accounting, secretarial, and clerical efforts of Managing Agent in processing any "Special Assessment" will be charged to Association at

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the additional rate of \$2.00 per Unit for each scheduled installment payment required under the Special Assessment.

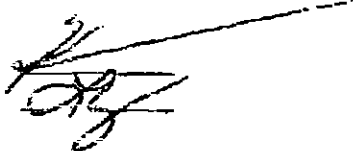
Managing Agent may charge a reasonable fee for collection proceedings on delinquent accounts due the Association. Such fee will be an expense of the Unit owner in arrears and is not chargeable to the Association. Notwithstanding the above, Managing Agent may directly, or through its affiliates, charge a processing fee directly to the Association for providing certain accelerated collections services such as filing of delinquent owner accounts with the local Credit Bureau, filing of assessment liens, filing suit against delinquent owners in Small Claims Court, etc. Such processing fees per Unit shall be published in advance of any service, and said service shall not be provided except by prior Board approval. Association, upon payment of processing fee, may direct Managing Agent to backcharge delinquent owner.

WEBSITE:

Within a reasonable period after the execution of this Agreement, the Agent will cause an interactive website (the "Website") to be made available to the Association that will contain information specifically related to the Association. Access to most areas of the Website will be password protected, for the free and exclusive use of Association residents who register for this service through the Website. The Website will be operated and maintained by the Agent or its service providers and available by hyperlink from the Agent's website. It will provide various communication tools, which may include directories, calendars, surveys and forums and other products and services. All data submitted to the Website by Association residents and all content contributed by the Association shall be the property of the Association and are hereby licensed to the Agent for use in operating and maintaining the Website and related services. The Website and all computer programs and code used in the operation of the Website, as well as all intellectual property rights therein shall be the sole and exclusive property of the Agent. Revenue generated from the website through association generated advertising will be shared between the Association and Agent. All other revenue shall be the sole property of Agent.

Cancellation of the community website and this agreement requires 30 days written notice. In the event of the termination of this Agreement, the Agent will cause the Website to be shut down and will transfer all related resident data and Association content, in electronic format, to the party specified by the Association's Board of Directors. In the absence of instructions, the data will be transferred to the Association president. Upon completion of the transfer, the Agent will delete from its databases all

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personally-identifiable data about Association residents collected through the Website. If the association had a domain name managed by Agent, Agent will transfer the domain name to designated Association contact at no fee.

The Agent's monthly charge to the Association for the Website is \$ 60.00 and a one-time set up charge of: (if no fee is listed for monthly fee, fee will be based on number of units/homes in community as noted in the management contract or other binding document.)
(Check one below, if none are checked, a \$100 set up fee will be charged.)

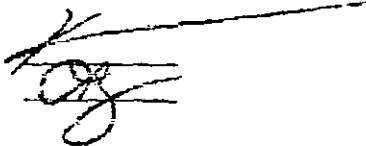
- Basic Set Up Fee (\$100) includes: scanning of documents, 2 custom photos, custom text, data base set up, set up of website and postcard to notify owners.
- Domain Name Transfer and Basic Set Up Fee (\$200) includes basic set up plus the transfer of Association domain name to Agent to manage. The domain name will be transferred back to Association upon termination at no charge by Agent.
- New Domain Name and Basic Set Up Fee (\$200 + cost of domain name registration) includes basic set up, registration of new domain name on behalf of association, three year domain name ownership. The domain name will be transferred to the Association upon termination at no charge by Agent.

**** Custom Logo Options Available upon request.**

The Website may contain links to other websites. Use of these websites is at the user's own risk. The Agent is not responsible for and does not endorse the content, products or services of any third-party websites and does not make any representations regarding their quality, content or accuracy. The Agent does not assume any liability for the materials, information and opinions provided on, or available through, the Website (the "Site Content"). Reliance on the Site Content is solely at the user's own risk. The Agent disclaims any liability for injury or damages resulting from the use of any Site Content.

The Website, the Site Content and the products and services provided on or available through the Website are provided on an "AS IS" and "AS AVAILABLE" basis. The Agent makes no warranty or representation

INITIALS



with respect to the quality, accuracy or availability of the Website and disclaims all warranties of any kind, express or implied, including any warranties of merchantability, fitness for a particular purpose or non-infringement. In no event will the Agent or its licensors or contractors be liable for any damages of any kind, under any legal theory, arising out of or in connection with the use of, or anyone's inability to use, the Website, the Site Content, any services provided on or through the Website or any linked site, including any direct, indirect, incidental, special, consequential or punitive damages.

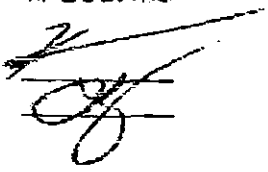
TERM:

The term of this Agreement shall be from the effective date thereof for a period of one (1) year. In the event the Agreement effective date and scheduled service commencement date of this Agreement differ, both being as recorded herein under "PRINCIPAL PARTIES," the term of this Agreement shall be for one (1) year from the latter of the two dates. This Agreement may be terminated under the following conditions:

1. This Agreement may be terminated by the mutual consent of the Principal Parties as of the end of any calendar month.
2. This Agreement will automatically be renewed for one (1) year each time the then existing term of this Agreement expires unless one of the Principal Parties notifies the other party in writing that they are terminating this Agreement at the end of the then current term. To be effective, said notice shall be given at least thirty (30) days prior to the end of the then existing term and shall be delivered by either Registered or Certified Mail or personal delivery.
3. In the event a petition in bankruptcy is filed by or against the Managing Agent, or in the event that it shall make an assignment for the benefit of creditors or take advantage of any insolvency act, either party hereto may terminate this Agreement without notice to the other.

Upon termination, Managing Agent will submit to Association copies of any financial or administrative records applicable to the Association which have not been previously provided, and after the Principal Parties

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have accounted to each other with respect to all matters outstanding as of the date of termination, Association will furnish Managing Agent security, in form and principal amount satisfactory to Managing Agent, against any obligations or liabilities hereunder, and Managing Agent will then promptly turn over all monies belonging to the Association. The Association will pay 1/2 of the collection cost on the books as of the cancellation date. This amount is to be paid to HCMS, even if not collected from the Homeowner. This is to reimburse HCMS for collection work already done on behalf of the association.

Breach of this Agreement by Board at any other time under any other circumstances without proper notice shall entitle Managing Agent to liquidated damages at the rate of \$ 1100.00 per month times the number of months remaining in the Agreement.

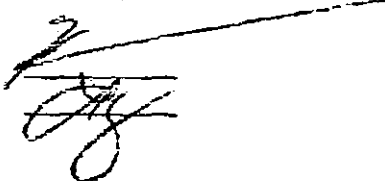
AGENT'S FEE:

In consideration of its services hereunder, Managing Agent shall be compensated in accordance with Exhibit A attached hereto. In future renewal periods of this Agreement, the Management Fee contained in Exhibit A shall be adjusted to that fee provided for in the Approved Budget of Association, provided, however, that at no time shall it be reduced without specific written consent of the Principal Parties. Managing Agent shall also be reimbursed for all expenses advanced on behalf of Association so that such compensation is "net" to Managing Agent, above operating expenses of Association. Any compensation or reimbursement not received by Managing Agent within ten (10) calendar days after the due date thereof shall bear interest at the maximum rate permitted by law. Association agrees to pay, in addition to all other sums contained herein, reasonable attorney's fees and costs of collection if this Agreement is placed in the hands of an attorney for collection.

If the Managing Agent is to be involved in supervising or coordinating projects including the addition of new amenities, extensive remodeling, rebuilding, or renovation of the common elements, the Managing Agent shall be additionally compensated by Association as agreed for this service. In no event, however, shall such fee exceed market rates for similar construction management services nor shall any fee be due Managing Agent for projects (as defined above) occurring within twelve months of one another with a collective cost of less than \$5,000.00.

In the event of an extraordinary loss of \$1,000.00 or more which involves a claim under insurance, Managing Agent shall receive from Association a separate and additional fee equal to 10% of the amount of

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any insurance claim settlement received by the insured; provided, however, that such additional fee shall be due and payable only to the extent that funds from the claim settlement remain for same after claim repairs are substantially completed and payment for such has been made. Said separate fee shall be for that time involved in discussion and negotiation between Managing Agent and the appropriate insurance carriers, adjusters, and contractors in reaching a Proof of Loss Statement acceptable to those parties having an insurable interest, and for Managing Agent's coordination and supervision over related activities with the designated general contractor or construction manager for the project which originated from the loss.

In recognition of Managing Agent's unique experience in preparation, submittal and negotiation of loans for community associations and the additional demands made on Managing Agent's resources during such loan acquisition process, a loan processing fee of one percent (1%) of the total loan proceeds granted to Association will be paid to Managing Agent by Association upon the successful initial funding of a loan. Loan terms and conditions shall be agreed to and approved by Association and/or Board.

REVISION
OF CONTRACT:

This contract shall be reviewed and adjusted only on the basis of negotiation between the Principal Parties, as then stated in a written and mutually executed agreement.

ENTIRE
AGREEMENT:

This Agreement shall constitute the entire Agreement between the Contracting Parties, and no variance or modification thereof shall be valid and enforceable, except by an agreement in writing.

RESPONSIBILITY:

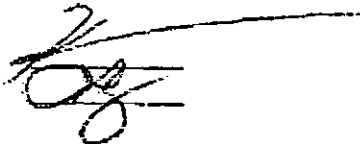
Managing Agent shall be responsible for his conduct in accordance with law, and will keep in force sufficient liability insurance in an amount not less than \$1,000,000.00.

Managing Agent is acting as an agent for the Association and will employ its own craftsmen, employees, and workers and will provide Workers' Compensation insurance as required by law.

Upon request, Managing Agent will provide the Association with a Certificate of Insurance evidencing coverage in force for the term of this Agreement.

INITIALS

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Association will at all times hereunder keep in force public liability insurance in an amount not less than \$1,000,000.00 and Managing Agent shall be listed as an additional named insured thereunder. Association shall provide Managing Agent a Certificate of Insurance evidencing such upon request.

Managing Agent, its affiliated companies, successors and assigns, agents, shareholders, officers, directors, and the employees of any of the foregoing, shall not be liable in any manner to Association, its members or any other party for any injury or death of persons arising from actions taken or the failure to act within the scope of this Agreement or by law, including its own negligence, unless caused by the willful misconduct or gross negligence of Managing Agent.

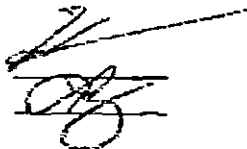
Managing Agent assumes no liability whatsoever for any acts or omissions of Board or Association, or any previous boards or current or previous Owners of Project, or any previous management or other agent of either. Managing Agent assumes no liability for any failure or default by any individual Unit Owner in the payment of any assessment due Association or in the performance of any obligations owed by any Unit Owner to Association pursuant to any lease or otherwise. Managing Agent likewise assumes no liability for any failure or default by concessionaires in any rental or other payments to Association. Further, Managing Agent does not assume any liability for violations or environmental or other regulations which may become known during the term of this Agreement. Any such regulatory violations or hazards discovered by Managing Agent shall be brought to the attention of Association in writing, and Association shall promptly cure them.

INDEMNITY:

Association agrees to indemnify, defend and hold harmless Managing Agent, its agents and employees from all claims, damages, judgments and fees arising from this Agreement, unless such damage related to an action or omission performed or omitted fraudulently or in bad faith or that constitutes wanton and willful misconduct or gross negligence.

In the event of failure by Association to fully perform hereunder, Managing Agent may, at its discretion, fulfill Association's obligations with the express understanding that all associated costs and expenses so incurred by Managing Agent shall be reimbursed by Association to Managing Agent, together with interest on the same from the date any such expense is paid until reimbursed at the maximum rate permitted by law.

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All exculpation and indemnity provisions contained herein shall survive any termination of this Agreement.

NOTICE:

Any notice by either party to the other shall be in writing and shall be given, and be deemed to have been duly given to either party when delivered personally or mailed in a registered or certified postpaid envelope addressed to the party at its registered office.

APPLICABLE LAW:

This Agreement shall be construed in accordance with the laws of the State of Texas.

VALIDITY:

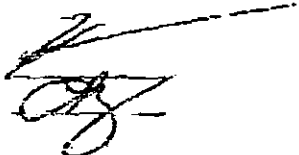
In the event that any provision hereof is found to be void or unenforceable, all of the remaining provisions of this Agreement shall be fully effective and shall not be affected by the void or unenforceable provision or provisions.

DEFINITIONS:

As used in this Agreement:

1. The term "assessments" shall mean those regularly scheduled rates established and approved by the Board, which the Owners are bound to pay as their share of the common expense, according to the Declaration. A "Special Assessment" shall mean an additional assessment beyond the scheduled regular assessment which shall occur over one or more months during the same time period in which the regularly scheduled assessment is in effect or a temporary regular assessment increase implemented for some predetermined period of time after which the former lower assessment rate is restored.
2. The term "Project" as used herein shall mean the property and improvements belonging to the Association.
3. The term "Unit" as used herein shall mean each individual property unit within Project which constitutes membership in Association (e.g., condominium unit, lot, townhome, etc.).
4. The term "Association" as used herein shall mean an Association consisting of all the Owners of Units in the Project organized under the laws of the State of Texas for the purpose of administering the Project established by the Declaration of Deed.
5. The term "Principal Parties" as used herein shall mean the managing Agent and the Association.

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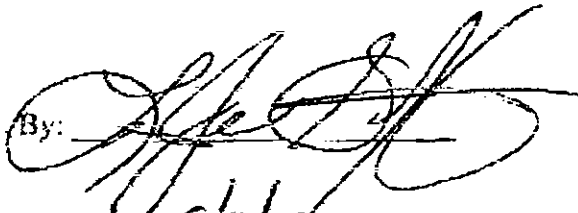
SUCCESSORS
AND ASSIGNS:

This Agreement shall inure to the benefit of and constitute a binding obligation upon the Managing Agent, the Board and the Association, their heirs, administrators, successors, and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

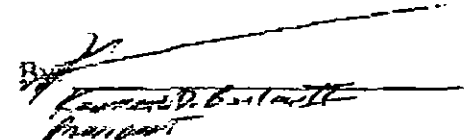
MANAGING AGENT:

HOUSTON COMMUNITY MANAGEMENT
SERVICES, INC. a Texas Corporation

By: 
Dated: 9/10/09

ASSOCIATION:

THE PALMS OWNERS
ASSOCIATION, INC.

By: 
Dated: 9/10/09

INITIALS

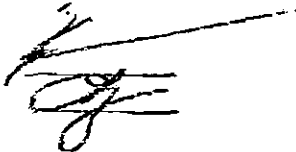


EXHIBIT A

Monthly Fee: \$ 1100.00 PER MONTH
Set Up Fee \$ 250.00 ONE TIME FEE

Postage: at cost
Copies: .15 each

Services available on request and/or outside the scope of the contract:

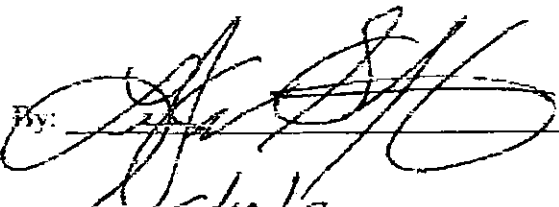
Management: \$75.00 per hour
Accounting: \$ 45.00 per hour
Secretarial: \$35.00 per hour
Clerical: \$15.00 per hour
Licn Filing: \$ 125.00 each (paid by homeowner)
ACC Processing: \$ 10.00 each
Delinquent Collection Fee: \$ 15.00 per account, per month (this fee is charged to and paid by the homeowner, for collection and follow up of delinquent assessments)

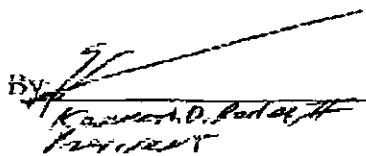
MANAGING AGENT:

HOUSTON COMMUNITY MANAGEMENT
SERVICES, INC. a Texas Corporation

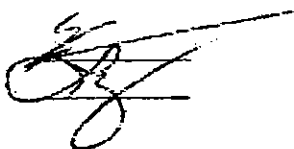
ASSOCIATION:

THE PALMS OWNERS
ASSOCIATION INC.

By: 
Date: 9/10/09

By: 
Date: 9/10/09

INITIALS



CONDOMINIUM MANAGEMENT CERTIFICATE

- 1. NAME OF SUBDIVISION: The Palms Owners Associations, Inc.
- 2. NAME AND ADDRESS OF ASSOCIATION: The Palms Owners Associations, Inc
C/o Houston Community Management Services
17049 El Camino Real Suite 100
Houston, Texas 77058
- 3. RECORDING DATA FOR SUBDIVISION: County Clerk's File No. 8423815 page 003-07-0740 thru 003-07-0801 in the Official Public Records of Real Property of Galveston County, Texas

4. RECORDING DATA FOR ASSOCIATION DECLARATION:

NAME OF INSTRUMENT: Condominium Declaration

5. AS OF THIS DATE AND UNTIL FURTHER SUPPLEMENTATION IN THE EVENT OF AN ADDRESS CHANGE, THE MAILING ADDRESS FOR THE ABOVE-NAMED ASSOCIATION IS:

Houston Community Management Services
17049 El Camino Real Suite 100
Houston, Texas 77058
Phone: 832-864-1200

6. OTHER INFORMATION THE ASSOCIATION CONSIDERS APPROPRIATE:

Prospective purchasers are advised to independently examine the Declaration, By-Laws, and all other governing documents of Association, together with obtaining an official Resale Certificate and performing a comprehensive physical inspection of the lot/home and common areas, prior to purchase.

Signed this ___10th___ day of _____December_____, 2009.

The Palms Owners Associations, Inc.

By: _____
Duly Authorized Agent

STATE OF TEXAS §
COUNTY OF GALVESTON §

This instrument was acknowledged before me on December 10th, 2009, by _____,
duly authorized agent for The Palms Owners Associations, Inc., on behalf of said association.

Notary Public, State of Texas

AFTER RECORDING RETURN TO:
Houston Community Management Services
17049 El Camino Real, Suite 100
Houston, Texas 77058