

FIRST AMENDED AND RESTATED
BY-LAWS
OF
CYPRESSWOOD GLEN PROPERTY OWNERS ASSOCIATION

ARTICLE I NAME AND LOCATION

Section 1. The name of the Corporation is Cypresswood Glen Property Owners Association, hereinafter referred to as the Association. The principal office of the Association shall be located at its registered address, but meetings of Members, Officers, and the Board of Directors may be held at such places within the State of Texas, County of Harris, as may be designated by the Board of Directors, from time to time.

ARTICLE II DEFINITIONS

Section 1. "Association" shall mean and refer to Cypresswood Glen Property Owners Association, a Texas nonprofit corporation incorporated under the laws of the State of Texas, its successors and assigns.

Section 2. "Property" or "Properties" shall mean and refer to Cypresswood Glen, a subdivision in Harris County, Texas, and any additional properties which may hereafter be brought within the jurisdiction of the Association.

Section 3. "Owner", "Member", or "Members" shall mean and refer to the record Owner or Owners, whether one or more persons or entities, of the fee simple title to any Lot or Tract of Land which is part of the Property, including contract sellers, but excluding those having an interest merely as security for the performance of an obligation.

Section 4. "Board", "Board of Directors", "Directors" shall mean and refer to the duly elected Board of Directors of the Association.

Section 5. "Chairman of the Board" shall be a Director chosen by the majority of the Board of Directors upon vacancy of that position to chair all Regular Board Meetings, plan the activities of the Board, create Regular Board Meeting agendas, all with the concurrence of the majority of the Board. The Chairman of the Board shall serve as Chairman of the Board for a period not to exceed one year and in no case beyond that person's term of office.

Section 6. "Lot" or "Lots", "Tract of Land" or "Tracts of Land" shall mean and refer to any plot of land shown upon any recorded subdivision map or plat of the Property upon which there has been or will be constructed a single-family residence, but shall not include any Common Area.

Section 7. "Common Area" or "Recreation Area" shall mean and refer to all real property owned in fee or held in easement by the Association for the common use and enjoyment of the Owners/Members.

Section 8. "Declaration" shall mean and refer to the Declaration of Covenants, Conditions and Restrictions for Cypresswood Glen, Section One, a subdivision in Harris County, Texas, according to the plat thereof recorded in the Map Records of Harris County, Texas, and any additions and supplements thereto.

Section 9. "Official", "Officials" and "Officials of the Association" shall mean the Directors and/or Officers of the Association collectively and/or individually.

Section 10. "Assessment Due Date" shall mean January 1 of each year.

Section 11. "Absentee Ballot" shall mean a voting instrument required by Absentee Voting.

Section 12. Except as herein provided to the contrary, legal "Notice" shall be given by mailing, postage prepaid, a copy of such notice at least ten (10) calendar days, but not more than thirty (30) calendar days, before the happening of the circumstance requiring notice to each Member's address last appearing on the books of the Association, or supplied in writing by such Member to the

Association. Notice shall be deemed to be delivered when deposited in the United States mail.

Section 13. Except as herein provided to the contrary, "Hearing" shall mean a review of one or more Member grievances.

ARTICLE III MEMBERSHIP AND VOTING RIGHTS

Section 1. Membership. Every person or entity who is an Owner of any of the Lots or Tracts of Land which are subject to assessment by the Association shall be a Member of the Association. No Owner shall have more than one membership. Membership shall be appurtenant to and may not be separated from ownership of the land which is subject to assessment by the Association. Ownership of such land shall be the sole qualification for membership.

Section 2. Voting Rights. Members shall be entitled to one (1) vote for each Lot or Tract of Land owned. When more than one person holds an interest in any Lot or Tract of Land, all such persons shall be Members. The vote of such Lot shall be exercised as they among themselves determine, but in no event shall more than one vote be cast with respect to a Lot or Tract of Land. At all meetings of Members, Members entitled to vote may vote either in person or by Absentee Ballot. Only Members in good standing shall be entitled to voting rights. Any Member who is delinquent in the payment of any assessment is not in good standing. Voting rights shall be suspended until the assessment has been paid in full, including accrued interest.

Section 3. Absentee Voting. Each Member entitled to vote may vote either in person or by Absentee Ballot. An Absentee Ballot shall be provided to each such Member in accordance with Article IV, Section 3 of these By-Laws. An Absentee Ballot may be submitted by a Member who is unable to be present at a duly noticed meeting. Each Absentee Ballot shall contain all items subject to such vote, a printed ballot and a specially recognizable self-addressed return envelope addressed to an uninterested third party selected by the Board of Directors. Absentee ballots shall be received by close of business on the date specified on the Absentee Ballot; any Absentee Ballots received after the deadline date shall be deemed invalid. The person designated as addressee for the returned ballots shall hold them in the outer envelopes for delivery, unopened, at the meeting of the tellers where the votes are to be counted.

Section 4. Suspension of Rights. During any period in which a Member shall be delinquent in the payment of any annual or special assessment levied by the Association, or should a Member for any reason be a judgment debtor of the Association, the voting rights and the right to use the recreational facilities and Common Areas of such Member shall be suspended by the Board of Directors until such assessment or judgment, including accrued interest, has been paid in full. Such rights of a Member may also be suspended after Notice and Hearing of the Board of Directors for a period not to exceed sixty (60) days for violation of any rule or regulation established by the Board of Directors governing the use of the Common Area and recreational facilities, if any.

Section 5. Hearing Procedures. A Hearing shall be a review of one or more Member grievances for the purpose of resolving conflicts among the Members where the Board of Directors has the legal authority to decide the issue or issues in the first instance. The Hearing Committee must call a hearing within 14 calendar days when petitioned by a Member or Members. A decision by the Hearing Committee may be appealed to the Board of Directors by any party to the grievance. In its discretion, the Board of Directors has the right to reject any petition of appeal. In any case the Board of Directors must hear the facts of the grievance being appealed or reject the appeal within 14 calendar days. A decision by the Board of Directors shall be final in all instances.

ARTICLE IV MEETINGS OF MEMBERS

Section 1. Annual Meetings. Annual Meetings of the Members shall be held during the month of October of each year. The place, day and hour of Annual Meetings shall be determined by the Board of Directors. The Board of Directors may call additional regular meetings of the membership if such meetings are deemed necessary by the Board of Directors. It is the duty of the Board of Directors to call such meetings each year as set forth in Section 3 of this Article.

Section 2. Special Meetings. Special Meetings of the Members may be called at any time by three (3) Officers of the Association, one of whom shall be the President, or by at least three (3) Members of the Board, or upon written request to the Board by Members in good standing who shall comprise one-third (1/3) of all of the votes in the Association. Any written request for a Special Meeting submitted by the Members shall not be valid unless the request sets forth in detail the purpose of the requested meeting. A Special Meeting requested by the requisite number of Members shall be scheduled on a date and at a place and hour deemed appropriate by the Board of Directors, but not later than thirty (30) days after receipt of the written request for a Special Meeting.

Section 3. Notice of Meeting. Written notice of each Annual or Special Meeting of the Members shall be given by or at the direction of the Board, by mailing a copy of such notice, postage prepaid, at least ten (10) but not more than thirty (30) calendar days prior to such meeting to each Member, addressed to the Member's address last appearing on the books of the Association, or supplied in writing by such Member to the Association for the purpose of notice. Such notice shall specify the agenda, place, day and hour of the meeting and, in the case of a Special Meeting, the purpose or purposes of the meeting. Notice shall be deemed to be delivered when deposited in the United States mail.

Section 4. Record Date. The record date for determining Members entitled to vote shall be at the close of business on the fifth (5th) day preceding the date on which notice is mailed. If notice is waived, the record date shall be at the close of business on the business day preceding the date of the meeting.

Section 5. Voting Members List For a Meeting and Ballot Destruction. Not later than two (2) days after the date notice is mailed of a meeting for which a list was prepared, and continuing through the meeting, the Secretary shall prepare an alphabetical list of all voting Members. The list of voting Members must be made available for inspection by any Member entitled to vote. A Member entitled to vote is entitled, on written demand, to inspect and copy the list at a reasonable time and at the Member's expense during the period it is available. Ballots shall not be destroyed for a period of 30 days after a vote has been counted and the outcome has been announced to the Board.

Section 6. Quorum. The presence at any meeting of Members entitled to cast one-tenth (1/10) of the votes in the Association shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation, the Declaration, or these By-Laws. If, however, a quorum is not present at any meeting, the Members present at that meeting entitled to vote shall have the power to adjourn the meeting from time to time without notice, other than announcement at the meeting, until a quorum shall be present or represented. Members present at a duly constituted meeting may continue to transact business until adjournment despite the withdrawal of enough Members to leave less than a quorum. The vote of the majority of Members represented at such meeting shall be the act of the Members' meeting, unless the vote of a greater number of the Members is required by law, the Declaration, the Articles of Incorporation, or these By-Laws. The President shall preside at, and the Secretary shall keep the records of, each meeting of Members.

Section 7. Interested Members Excluding Directors and Officers of the Association. No contract or other transaction between the Association and any of its Members (or any partnership, association, joint venture or other organization in which any of them are directly or indirectly interested) shall

be invalid solely because of this relationship or because of the presence of such Members at the meeting authorizing such contract or transaction or participation in such meeting or authorization if:

(a) the material facts of the relationship or interest of each such Member are known or disclosed in writing to the Board of Directors and it nevertheless authorizes or ratifies the contract or transaction; or the Members nevertheless authorize or ratify the contract or transaction by an affirmative vote of a majority of the Members present, each such interested Member to be counted neither for quorum nor voting purposes; and,

(b) the contract or transaction is in the best interest of the Association as of the time it is authorized or ratified by the Board of Directors or the Members. This provision shall not be construed to invalidate a contract or transaction which would be valid in the absence of this provision.

ARTICLE V BOARD OF DIRECTORS: SELECTION AND TERM OF OFFICE

Section 1. Number and Eligibility. The affairs of this Association shall be managed by a Board of five (5) Directors who are Members of the Association. Members holding public office shall not be eligible to serve as a Director.

Section 2. Term of Office. At each Annual Meeting of the Association in an odd numbered year, the Members shall elect three (3) Directors for a term of two (2) years. At each Annual Meeting of the Association in an even numbered year, the Members shall elect two (2) Directors for a term of two (2) years. Incumbents as of the date of this document shall serve the term of their office to which they were previously elected. A newly elected Director's term of office shall begin and become effective on January 1st. For the purpose of increasing the number of Directors to five (5) from three (3) in 1998 as provided herein, the two (2) Directors elected shall serve the odd year term starting on the day they are elected (these two (2) Directors' terms will expire in 1999).

Section 3. Compensation. Members of the Board of Directors shall not receive compensation for any services they may render to the Association; provided, however, any Director may be reimbursed for actual expenses incurred in the performance of duties.

Section 4. Nomination. Nomination for election to the Board shall be made by a Nominating Committee. Nominations may also be made from the floor at the Annual Meeting of Members by the Members of the Association only. The Nominating Committee shall consist of a chairman, and two (2) or more Members of the Association. The Nominating Committee shall be appointed by the Board prior to each Annual Meeting of the Association to serve from the close of such Annual Meeting until the close of the next Annual Meeting. Such appointment shall be announced at each Annual Meeting. The Nominating Committee shall make as many nominations for the election to the Board as it shall in its discretion determine, but not less than the number of vacancies that are to be filled.

Section 5. Election. Election to the Board shall be by secret written ballot. At such election the Members may cast in person or by Absentee Ballot one vote for every vacancy which exists. Should there be but one nominee for any such vacancy, the ballot may be dispensed with and the nominee elected by voice vote.

ARTICLE VI BOARD OF DIRECTORS: MEETINGS & VACANCIES

Section 1. Regular Meetings. Regular Meetings of the Board shall be held at least quarterly, with notice, at such place, date and hour as may be fixed from time to time by resolution of the Board.

Section 2. Special Meetings. Special Meetings of the Board shall be held when called by the President or by any three (3) Directors, upon not less than three (3) days notice to each Director, which such notice may be waived at or prior to such meeting.

Section 3. Action Without a Meeting. Any action which may be required or permitted to be taken at a meeting of the Board of Directors may be taken

without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the members of the Board of Directors. Such consent shall be placed in the minute book of the Association with the minutes of the Board of Directors. Any action so approved shall have the same effect as though taken at a meeting of the Directors.

Section 4. Quorum. A majority of the number of Directors shall constitute a quorum for the transaction of business at a Board of Directors meeting. Every act or decision done or made by a majority of the Directors present at a duly held meeting shall be regarded as an act of the Board.

Section 5. Removal and Replacement. Any Director may be removed, with or without cause, from the Board by a majority vote of the Members of the Association according to the voting rights specified in Article III. In the event of vacancy, death, resignation or removal of a Director, a successor shall be selected by the remaining Members of the Board and shall serve for a period of 90 days. During the appointed period, a Special Meeting shall be held to elect a replacement Director for the unexpired term.

ARTICLE VII BOARD OF DIRECTORS: POWERS AND DUTIES

Section 1. Powers. The Board shall have power to:

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

(b) Suspend the voting rights and the right to use the recreational facilities and Common Areas as set forth in Article III, Section 4 of these By-Laws;

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

(d) Declare the office of a member of the Board to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board;

(e) Employ a manager, an independent contractor, or such other employees as deemed necessary, and prescribe their duties; and,

(f) Act as ex-officio members of all committees.

Section 2. Duties. It shall be the duty of the Board to:

(a) Cause to be kept a complete record (minutes) of all its acts and corporate affairs and to present a summary thereof to the Members at the Annual Meeting of the Association or at any Special Meeting called for the presentation of such statement;

(b) Supervise all Officers, agents and employees of the Association and see that their duties are properly performed;

(c) As more fully provided in the Declaration:

(1) Fix the amount of the annual assessment against each Lot or Tract of Land at least sixty (60) days in advance of each annual Assessment Due Date with written notice to Members not less than thirty (30) days prior to the Assessment Due Date.

(2) Fix the amount of any special assessment against each Lot or Tract of Land at least sixty (60) days in advance of the due date for such assessment by written notice to the Member no less than thirty (30) days prior to the special Assessment Due Date.

(3) Send notice of delinquency of each assessment to every Owner subject hereto sixty (60) days after the due date for such assessment or bring legal action against the Owner personally obligated to pay the same, including but not limited to, a lien on the Lot or Lots, as provided in the Declaration.

(d) Procure and maintain adequate liability and hazard insurance covering the Association, the Officers and Directors of the Association, and any property owned by the Association with limits as prescribed by the annual audit;

(e) Cause all Directors, Officers and employees of the Association having fiscal responsibilities to be bonded, as it may deem appropriate;

(f) Cause Lots and Common Areas to be maintained as called for by the Declaration upon assignment to the Association of such right and obligation;

(g) Require all contractors and all subcontractors engaged in contractual agreements with the Association to provide Certificates of Insurance with a 10-day cancellation clause for Commercial General Liability with Products and Completed Operations and Workman's Compensation Insurance when available and at a reasonable price; and,

(h) Authorize the opening of bank accounts as needed. All depository accounts must be maintained only in Federal Deposit Insurance Corporation insured financial institutions.

ARTICLE VIII OFFICERS AND THEIR DUTIES

Section 1. Enumeration of Officers. The Officers of this Association shall be a President, a Vice President, both of whom shall at all times be members of the Board, a Secretary, and a Treasurer, and such other Officers as the Board may from time to time by resolution create.

Section 2. Election of Officers. The election of Officers shall take place at the first meeting of the Board following each Annual Meeting of the Members.

Section 3. Term. The Officers of this Association shall be elected annually by the majority of the Board and each shall hold office for one (1) year unless unable to do so because of death, resignation, or removal.

Section 4. Special Appointment. The majority of the Board may appoint such other Officers as the affairs of the Association may require, each of whom shall hold office for no more than (1) year and shall have such authority and perform such duties as the Board may from time to time determine. In all cases where the duties of any office are not prescribed by the By-Laws or by the Board, such Officer shall follow the orders and instructions of the President.

Section 5. Resignation and Removal. Any Officer may be removed from office by a majority vote of the Board. Any Officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. A vacancy in any office may be filled by appointment by a majority vote of the Board. The Officer appointed to such vacancy shall serve for the remainder of the term of the Officer replaced.

Section 7. Multiple Offices. No person shall simultaneously hold more than one office except for special offices created pursuant to Section 4 of this Article.

Section 8. Residence. Officers shall be residents of Cypresswood Glen. If an Officer changes domicile, even if retaining ownership, such Officer shall automatically resign his/her position and the Board shall appoint a replacement within 30 days.

Section 9. Disbursement of Funds and Authority to Sign Checks. Association funds may be disbursed in one or both of the following ways:

(a) A check signed by any two (2) Officers; or,

(b) the Board, from time to time, may authorize any persons or persons, who need not be officers or directors of the Association, to sign checks of the Association. Such agents may be authorized to sign singly or jointly, as the Board in its discretion may decide. The Board may at any time rescind and revoke such authority granted to any person or persons. Such authority may be given to a person or persons in conjunction with or in lieu of the authority of the two Officers to sign checks.

Section 10. Duties. The duties of the Officers are as follows:

(a) PRESIDENT. The President shall preside at all meetings of the Officers, regular general meetings of the Members and special meetings of the Members, see that orders and resolutions of the Board are carried out, sign all leases, mortgages, deeds, demand notes, voted on and approved by a majority of the Members present at a duly convened meeting of the Members, and other written instruments, and shall co-sign all promissory notes.

(b) VICE PRESIDENT. The Vice President shall act in the place and stead of the President in the event of the President's absence, inability or refusal to act, may co-sign all checks, and shall exercise and discharge such other duties as may be required by the Board.

(c) SECRETARY. The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board, of the Officers and of the Members; keep the corporate seal, if any, of the Association and affix it on all papers requiring said seal, serve notice of meetings of the Board and of the Members, may co-sign all checks, keep appropriate current records showing the Members of the Association together with their addresses, and cause the minutes of the Directors', Officers' and Members' meetings to be published as provided herein, and perform such other duties as required by the Board.

(d) TREASURER. The Treasurer shall receive and deposit in a bank insured by the FDIC all moneys of the Association and disburse such funds as directed by resolution of the Board, keep proper books of account, may co-sign all checks, cause an annual audit of the Association books to be made by a certified public accountant at the completion of each fiscal year, prepare and have available at any meeting of the Members a listing of all Members who have voting rights, prepare and present an annual budget and statement of income and expenditures to the Members at the Annual Meeting and, as it may pertain, to any special meeting, and issue, or cause to be issued, upon demand by financial institutions/title companies/federal-state-municipal authorities, a statement setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Association for the issuance of such statement. If a statement states an assessment has been paid, such shall be conclusive evidence of such payment.

Section 11. Compensation. Officers shall not receive compensation for their services, except as noted in Article XV, Section 3.

ARTICLE IX COMMITTEES

Section 1. The Board may establish committees, as provided in these By-Laws, as deemed appropriate for carrying out its purposes. Except as herein provided, the committee members shall be volunteers who are residents of Cypresswood Glen and shall be confirmed by the Board of Directors at the first Board Meeting following the Annual Meeting and at such time the committee chairs shall be determined by majority vote of the committee members. The committees may include, but are not limited to the following:

(a) Architectural Review / Deed Restrictions Committee - to advise the Board on all matters pertaining to architectural review and deed restrictions.

(b) Maintenance Committee - to advise the Board on all matters pertaining to the maintenance, repair or improvement of the Properties in any Common Area except as stated in subparagraph (d) of this section.

(c) Safety & Security Committee - to advise the Board on all matters pertaining to safety within the boundaries of the Association.

(d) Pool Committee - to advise the Board on all matters pertaining to the operation and maintenance of the pool.

(e) Publicity Committee - to inform the Members of all activities and functions of the Association, publish a community newsletter and, after consulting with the Board, make such public releases and announcements as are in the best interest of the Association.

(f) Social Committee - after consulting with the Board, welcome new Members, maintain a resident directory and organize social events that are of interest to Members of the Association. Welcoming new Members may include but not be limited to handing out a copy of the Association's deed restrictions, By-Laws and resident directory.

(g) Nomination Committee - shall be responsible for nominations of Members for elections to the Board of Directors as pursuant to Article V, Section 4. The Nomination Committee shall report to the Members at each Annual Meeting.

(h) Hearing Committee - shall be a Member committee appointed by the Board of Directors for the purpose of arbitrating Member grievances (see Article III, Section 5 for Hearing Procedures).

Section 2. Compensation. Committee members shall not receive compensation for any services rendered to the Association; provided, however, any member may be reimbursed for actual expenses incurred in the performance of duties.

ARTICLE X BOOKS, RECORDS. AND AUDITS

The books, records, and documents of the Association shall be subject to inspection by any Member at all times during reasonable business hours; provided, however, that any request by any Member of the Association to inspect the books, records and papers of the Association shall be in writing, shall identify the books, records and papers sought to be inspected and shall specify the purpose of the inspection. The Declaration, the Articles of Incorporation, and the By-laws of the Association shall be available for inspection by any Member at the principal office of the Association where copies may be purchased at a reasonable cost.

ARTICLE XI ASSESSMENTS

Section 1. Purpose. Refer to Article IV, Section 2 of the Declaration of Covenants, Conditions and Restrictions for Cypresswood Glen, Section One.

Section 2. General. As more fully provided in the Declaration, each Owner is obligated to pay to the Association annual and special assessments which are secured by a continuing lien upon the Property against which the assessment is made. Any assessments which are not paid when due shall be delinquent. If the assessment is not paid within thirty (30) days after the due date, the assessment shall bear interest from the due date at the limits of Texas state law, and the Association may bring legal action against the Owner personally obligated to pay the delinquent assessments or foreclose the lien against the Property. Interest, costs, and reasonable attorney's fees of any such action shall be added to the amount of such assessment. No Owner shall waive or otherwise escape liability for the assessments provided for herein by non-use of the Common Area or abandonment of the Lot and/or Tract of Land.

ARTICLE XII APPEALS

Any Member may appeal a decision of any Committee appointed pursuant to Article IX hereof to the Board provided that all subordinate avenues of resolution have been pursued and, provided further, that all parties involved comply with the decision of such Committee until such time, if any, as the Board amends or reverses the decision of the Committee. Appeals petitions shall be legibly written and shall be submitted in form satisfactory to the Board. The Board may grant a hearing to a Member filing an appeal as herein above set forth upon at least twenty-one (21) days prior written notice to all interested parties. The Board may, with or without a hearing, by majority vote as herein provided, uphold the decision of the Committee in its entirety, amend such decision or overturn such decision. A Member shall exhaust all available remedies as herein provided before such Member may resort to a court of law for relief with respect to any Committee decision.

ARTICLE XIII INDEMNIFICATION AND INSURANCE NOTE: All references to "Sections" in this Article pertain to this Article unless otherwise noted.

Section 1. Persons. The Association shall indemnify, to the extent provided in Sections 2 through 5, any person who is or was a Director or Officer of the Association.

Section 2. Extent - Derivative Suits. In case of a suit by or in the right of the Association against a person named in Section 1 by reason of that person holding a position named in Section 1, the Association shall indemnify that person providing the standards in Section 3 are satisfied for expenses (including attorneys' fees but excluding amounts paid in settlement and judgment) actually and reasonably incurred by the person in connection with the defense or settlement of the suit.

Section 3. Standard - Derivative Suits. In case of a suit by or in the right of the Association, a person named in Section 1 shall be indemnified only if:

(a) The person is successful on the merits or otherwise;

(b) The person acted in good faith in the transaction which was made the subject of the suit, and in a manner the person reasonably believed to be in, or not opposed to, the best interests of the Association. However, the person shall not be indemnified in respect of any claim, issue or matter as to which the person has been adjudged liable for negligence or misconduct in the performance of duty to the Association unless (and only to the extent that) the court in which the suit was brought shall determine, upon application, that despite the adjudication but in view of all the circumstances, the person is fully and reasonably entitled to indemnity for such expenses as the court shall deem proper.

Section 4. Extent - Nonderivative Suits. In case of a suit, action or proceeding (whether civil, criminal, administrative or investigative), other than a suit by or in the right of the Association, together hereafter referred to as a nonderivative suit, against a person named in Section 1 by reason of the person holding a position named in Section 1, the Association shall indemnify the person providing the standards in Section 5 are satisfied, for amounts actually and reasonably incurred by the person in connection with the defense or settlement of the nonderivative suit including:

(a) Expenses (including attorney's fees); (b) Amounts paid in settlement;

(c) Judgments; and,

(d) Fines.

Section 5. Standard - Nonderivative Suits. In case of a nonderivative suit, a person named in Section 1 shall be indemnified only if:

(a) The person is successful on the merits or otherwise; or

(b) The person acted in good faith in the transaction which is the subject of the nonderivative suit, and in a manner the person reasonably believed to be in, or not opposed to the best interests of the Association, and, with respect to any criminal action or proceeding, the person had no reason to believe such conduct was unlawful. The termination of the nonderivative suit by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person failed to satisfy the standard of this Section 5 (b).

Section 6. Determination that Standard has Been Met. A determination that the standard of Section 3 or 5 has been satisfied may be made by a court. Or, except as stated in Section 3 (b) (second sentence), the determination may be made by:

(a) A majority of the Board of Directors of the Association (whether or not a quorum) who were not parties to the action, suit or proceeding; or

(b) Independent legal counsel (appointed by a majority of the Board of Directors of the Association, whether or not a quorum, or elected by the Board of Directors of the Association) in a written opinion.

Section 7. Proration. Anyone making a determination under Section 6 may determine that a person has met the standard as to some matters but not as to others and may reasonably prorate amounts to be indemnified.

Section 8. Advance Payment. The Association may pay in advance any expenses (including attorneys' fees) which may become subject to indemnification under Sections 1 through 7 if:

(a) The Board of Directors authorizes the specific payment, and,

(b) The person receiving the payment undertakes in writing to repay unless it is ultimately determined that the person is entitled to indemnification by the Association under Sections 1 through 7.

Section 9. Nonexclusive. The indemnification provided by Sections 1 through 7 shall not be exclusive of any other rights to which a person may be entitled by law, these By-Laws, agreement, vote of Members or disinterested Directors, or otherwise.

Section 10. Continuation. The indemnification and advance payment provided by Sections 1 through 8 shall continue as to a person who has ceased to hold a position named in Section 2 and shall inure to his heirs, executors and administrators.

Section 11. Insurance. The Association shall purchase and maintain insurance, when available at a reasonable cost, on property owned by the Association and on behalf of any person who holds or who has held any position named in Section 1 against any liability incurred by the person in any such position, or arising out of the person's status as such, whether or not the Association would have power to indemnify the person against such liability under Sections 1 through 8. Insurance Coverages may include but not be limited to the following:

(a) Property Insurance to cover buildings, equipment and other structures with Replacement Cost endorsement and 80% co-insurance. Limits of such insurance should be not less than 80% of all such covered property.

(b) Commercial General Liability (CGL) insurance with suggested limits of \$1,000,000 Combined Single Limit (CSL). Extensions of coverage should include Sub Contract work on an "if any" basis and Non-Owned and Hired Auto. Coverage for liability exposure to Swimming Pools shall not be excluded.

(c) Employee Dishonesty Coverage Form on a blanket basis with limits of at least \$10,000 to include all Officers and Directors of the Association.

(d) Umbrella coverage may be purchased in amounts of \$1,000,000 increments when CGL limits need to exceed \$1,000,000 CSL.

(e) Directors and Officers Liability at limits equal to the Association's CGL policy limits.

(f) Insurance policies shall be purchased from insurance carriers admitted and licensed to conduct business in the State of Texas with a AM Best rating of at least "A Excellent". Coverages shall be purchased by agents licensed in the State of Texas with adequate Errors and Omissions Insurance. Coverages should be "packaged" when possible, however, Monoline policies may be purchased.

Section 12. Reports. Indemnification payments, advance payments, made under Sections 1 through 11 shall be reported in writing by the Treasurer to the Board of Directors of the Association within fifteen (15) calendar days.

ARTICLE XIV AMENDMENTS

These By-Laws may be amended at an Annual or Special meeting of the Members by a vote of a majority of a quorum of Members present in person or by absentee vote.

ARTICLE XV MISCELLANEOUS

Section 1. Waiver of Notice. Whenever notice is required by law, by the Articles of Incorporation or by these By-Laws, waiver thereof in writing signed by the Director, Member or other person entitled to said notice, whether before or after the time stated therein, or appearance at such meeting in person, shall be equivalent to such notice. The presence of a Director, Member or other person at

any meeting shall constitute a waiver of notice of such meeting except where such person attends such meeting for the purpose of objecting to the transaction of any business because the meeting is not lawfully called.

Section 2. Fiscal Year. The fiscal year of the Association shall begin on January 1st and end on December 31st of every year.

Section 3. Use of Funds. No part of the net earnings of the Association shall inure to the benefit of or be distributable to its Members, Directors, or Officers except to make payments and distributions in furtherance of the purposes set forth in its Articles of Incorporation.

Section 4. Conflicts. In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles shall control. In the case of any conflict between the Declaration and these By-Laws, the Declaration shall control.

Section 5. Conflict of Interest. It shall be incumbent upon all Directors and Officers to understand and adhere to proper conduct and standards to preclude and avoid actual or perceived conflicts of interest among their personal, business and official Association actions. Accordingly:

(a) A Director or Officer of the Association is prohibited from participating, directly or indirectly, in a vote or decision or from acting as a surety under circumstances when to do so is prohibited by law;

(b) In cases of conflicts of interest, Directors or Officers shall disclose such conflicts and shall file with the Secretary of the Association an affidavit stating the nature and extent of the conflict of interest. In cases of conflict of interest involving the Secretary of the Association, the Secretary shall file such affidavits with the President of the Association. Thereafter, the Director or Officer shall abstain from participation in the matter as provided by law;

(c) The Association may not contract for the purchase of services or personal property with a business entity in which a Director or Officer has a substantial interest, except as permitted by law;

(d) The Board shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a Director or Officer has a substantial interest. In the event of a separate vote, the Director or Officer may not participate in that separate vote but may vote on a final budget if the Director or Officer have complied with this Section; and,

(e) A Director or Officer who is financially interested in any contract made by the Association with a business entity or individual who is an employee of a business entity or person that is financially interested in the contract with the Association shall disclose that fact to the Board, which fact shall be entered into the minutes of the meeting. An interested Director or Officer may not vote on the acceptance of the contract and any interested Director or Officer may not participate in the discussion of the contract. The failure of a Director or Officer to disclose financial interest and to have it entered into the minutes shall cause the contract to be voidable by the Association.

Section 6. Severability. Invalidation of any one of these covenants or restrictions shall in no way affect any other provision, which shall remain in full force and effect.

Section 7. Corporate Seal. The Association may have a seal in circular form having within its circumference the words: Cypresswood Glen Property Owners Association.

Section 8. Grammatical and Correlation Changes. Grammatical and correlation changes in these By-Laws or amendments thereto, which in no way alter the intent of the respective By-Laws or amendments thereto, shall be effective subject to the approval of the Board.

Adopted by all three Directors of the Cypresswood Glen Property Owners Association on _____, 1998.