

EXHIBIT C

BY-LAWS
OF
RIVER STONE I ASSOCIATION, INC.

12-5-83
RECEIVED BY
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ARTICLE I

Members - (Unit Owners)

SECTION 1. Eligibility. The Members of River Stone I Association, Inc., a Texas nonprofit corporation, shall consist of the respective Unit Owners of the Property known as River Stone I Condominium, located at Walnut Bend Lane, Houston, Texas in accordance with the respective percentages of ownership interest in the Common Elements of the Property owned by the respective Unit Owners (these and other terms are used in these By-Laws as they are defined in the Declaration of Condominium for River Stone I, which Declaration is recorded in the Office of the County Clerk of Harris County, Texas; The word "member" or "members" as used in these By-laws means and shall refer to "Unit Owner" or "Unit Owners," as the case may be, as defined in the Declaration). If a Unit Owner is a corporation or partnership, the member may be an officer, partner or employee of such Unit Owner.

SECTION 2. Succession. The membership of each Unit Owner shall terminate when he ceases to be a Unit Owner, and upon the sale, transfer or other disposition of his ownership interest in the Property, his membership in the Association shall automatically be transferred to the new Unit Owner succeeding to such ownership interests.

SECTION 3. Regular Meetings. The first regular annual meeting of Unit Owners (the "First Meeting") may be held, subject to the terms hereof, on any date, at the option of the Board; provided, however, that said First Meeting shall be held not less than thirty (30) days and not more than one hundred and twenty (120) days after the earliest to occur of January 1, 1984, or the date on which the Declarator has sold and delivered its deed for at least 51% of the Units. For purposes of this provision, 51% of the Units shall mean Units which correspond, in the aggregate, to 51% of the undivided ownership of the Common Elements, as set forth in Exhibit B of the Declaration. Subsequent to the First Meeting, there shall be a regular annual meeting of Unit Owners held each year on a date which is within thirty

(30) days of the anniversary of the First Meeting. All such Meetings of Unit Owners shall begin at 7:30 p.m. and shall be held at such place in Harris County, Texas, and on such date as may be specified in a written notice of the meeting, which shall be given to all Unit Owners not more than sixty (60) days and not ~~more~~ than thirty (30) days prior to the date of such meeting. *less*

SECTION 4. Special Meetings. Special meetings of the Unit Owners may be called by the President or by a majority of the directors of the Board, or by Unit Owners having at least two-fifths (2/5) of the votes entitled to be at such meeting. Said special meetings shall be called by delivering written notice to all Unit Owners not less than ten (10) days prior to the date of said meeting, stating the date, time and place of said special meeting and the matters to be considered.

SECTION 5. Delivery of Notice of Meetings. Notices of meetings may be delivered either personally or by mail to a Unit Owner at the address given to the Board by said Unit Owner for such purpose, or to the Unit Owner's Unit, if no address for such purpose has been given to the Board.

SECTION 6. Voting. The aggregate number of votes for all Unit Owners shall be one hundred (100), and shall be divided among the respective Unit Owners, in accordance with their respective percentages of ownership interest in the Common Elements. If any Unit Owner consists of more than one person, the voting rights of such Unit Owner shall not be divided but shall be exercised as if the Unit Owner consisted of only one person in accordance with the proxy or other designation made by the persons constituting such Unit Owner. The Declarant may exercise the voting rights with respect to Units owned by it.

SECTION 7. Quorum. A quorum of Unit Owners for any meeting shall be constituted by Unit Owners represented in person or by proxy and holding a majority of the votes entitled to be cast at such meeting.

SECTION 8. Proxies. A Unit Owner may vote by proxy at any meeting of Unit Owners, provided such proxy is in writing and signed by the Unit Owner or his duly authorized attorney-in-fact. All such proxies shall be filed with the Secretary and shall be retained in the records of the Association.

ARTICLE II

Board of Directors

SECTION 1. Number, Election and Term of Office.

The Board of Directors of the Association (referred to herein as the "Board") shall consist of three (3) members (hereinafter referred to as "directors"). Directors shall be elected at the regular annual meeting of Association members by the vote of Unit Owners, except that the directors listed in the Articles of Incorporation of the Association (hereinafter called "members of the First Board") shall be appointed by the Declarant. Those candidates for election as director receiving the greatest percentage of votes cast either in person or by proxy at the meeting shall be elected. Subject to the provisions of the last two sentences of this paragraph, the members of the First Board shall serve until the first regular meeting of members held after January 1, 1984. At such meeting, a new Board consisting of three directors shall be elected by the Unit Owners; one member of such board shall hold office for a term of one year and until his successor shall be elected and qualified, one other member of such board shall hold office for a term of two years and until his successor shall be elected and qualified, and one other member of such board shall hold office for a term of three years and until his successor shall be elected and qualified. Thereafter, every director shall hold office for the term of three years and until his successor shall be elected and qualified. Upon the sale by the Declarant of Units which correspond, in the aggregate, to 51% of the undivided ownership of the Common Elements, set forth in Exhibit B of the Declaration, Unit Owners other than Declarant shall be entitled to elect one director at a regular or special meeting of members, and simultaneously with the election of such director, one member of the First Board, to be selected by Declarant, shall resign. Upon the sale by the Declarant of Units which correspond, in the aggregate, to 90% of the undivided ownership of the Common Elements, as set forth in Exhibit B of the Declaration, Unit Owners other than Declarant shall be entitled to elect one additional director at a regular or special meeting of the members, and simultaneously with the election of such director, one additional member of the First Board, to be selected by Declarant, shall resign.

SECTION 2. Qualification. Except for members of the First Board, each director shall be a Unit Owner or th

pouse of a Unit Owner (or, if a Unit Owner is a trustee of trust, a director may be a beneficiary of such trust, and if a Unit Owner or such a beneficiary is a corporation or partnership, a director may be an officer, partner or employee of such Unit Owner or beneficiary). If a director shall cease to meet such qualifications during his term, he shall hereupon cease to be a director and his place on the Board shall be deemed vacant.

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SECTION 3. Vacancies. Any vacancy occurring in the Board shall be filled by a majority vote of the remaining members thereof, except that a vacant position on the Board which was last filled by a member of the First Board may be filled by a person appointed by the Declarant. Any director so elected or appointed to fill a vacancy shall hold office for a term equal to the unexpired term of the director whom he succeeds.

SECTION 4. Meetings. A regular annual meeting of the Board shall be held within ten (10) days following the regular annual meeting of Unit Owners. Special meetings of the Board shall be held upon a call by the President or by a majority of the Board on not less than forty-eight (48) hours' notice in writing to each director, delivered personal or by mail or telegram. Any director may waive notice of a meeting, or consent to the holding of a meeting without notice, or consent to any action proposed to be taken by the Board without a meeting. A director's attendance at a meeting shall constitute his waiver of notice of said meeting.

SECTION 5. Removal. Any director may be removed from office for cause by the vote of two-thirds (2/3) of the total undivided ownership of the Common Elements. Failure to attend three consecutive meetings of the Board shall be deemed to be cause for removal.

SECTION 6. Compensation. Directors shall receive no compensation for their services as directors, unless expressly provided for in resolutions duly adopted by a majority of the Unit Owners.

SECTION 7. Quorum. Two (2) directors shall constitute a quorum.

SECTION 8. Powers and Duties. The Board shall have the following powers and duties:

(a) to elect and remove the officers of the Association as hereinafter provided;

(b) to administer the affairs of the Association and the Property;

(c) to engage the services of an agent hereinafter sometimes called the "Managing Agent"), to maintain, repair, replace, administer and operate the Property or any part thereof for all of the Unit Owners, upon such terms and for such compensation and with such authority as the Board may approve; provided, however, that the First Board, appointed as provided herein, shall have authority to ratify and approve a management agreement between the Association and a management corporation, which may be a corporation related to the Declarant, to act as Managing Agent for the Property.

(d) to formulate policies for the administration, management and operation of the Property and the Common Elements thereof;

(e) to adopt rules and regulations, with written notice thereof to all Unit Owners, governing the administration, management, operation and use of the Property and the Common Elements, and to amend such rules and regulations from time to time;

(f) to provide for the maintenance, repair, and replacement of the Common Elements and payments herefor, and to approve payment vouchers or to delegate such approval to the officers or the manager or Managing Agent;

(g) to provide for the designation, hiring and removal of employees and other personnel, including accountants and attorneys, and to engage or contract for the services of others, and to make purchases for the maintenance, repair, replacement, administration, management and operation of the Property and the Common Elements, and to delegate any such powers to the Managing Agent and any such employees or other personnel who may be the employees of a Managing Agent);

(h) to appoint committees of the Board and to delegate to such committees the Board's authority to carry out certain duties of the Board;

(i) to determine the fiscal year of the Association and to change said fiscal year from time to time as the Board deems advisable;

(j) to estimate the amount of the annual budget, and to provide the manner of assessing and collecting from the Unit Owners their respective shares of such estimated expenses, as hereinafter provided;

(k) to enter into any lease or purchase agreement for the lease or purchase of premises suitable for use as custodian apartments, upon such terms as the Board may approve;

(l) unless otherwise provided herein or in the Declaration, to comply with the instructions of a majority of the Unit Owners (as said majority is defined in Paragraph 1(n) of the Declaration), as expressed in a resolution duly adopted at any annual or special meeting of the Unit Owners;

(m) to enter such contracts and agreements relating to the providing of maintenance, management and operational services outside the Property and for the providing of heated and pumped domestic water to improvements on the Property as the Board may deem advisable;

(n) to enter such leases of portions of the Common Elements as the Board may deem advisable; and

(o) to represent the Unit Owners as a group in the Westchase Two Association and to cast all votes to which the Unit Owners are entitled as members of the Westchase Two Association.

(p) to exercise all other powers and duties of the Council of Co-Owners or Unit Owners as a group referred to in the Act, and all powers and duties of a Board of Directors referred to in the Declaration or these By-Laws.

SECTION 9. Non-Delegation. Nothing in this Article or elsewhere in these By-Laws shall be considered to grant to the Board, the Association or to the officers of the Association any powers or duties which have been reserved or retained by the Declarant, or which, by law, have been delegated to the Unit Owners.

ARTICLE III

Officers

SECTION 1. Designation. At each regular annual meeting of the Board, the directors present at said meeting shall elect the following officers of the Association by a majority vote:

(a) a President, who shall be a director and who shall preside over the meetings of the Board and of the Unit Owners, and who shall be the chief executive officer of the Association;

(b) a Secretary, who shall keep the minutes of all meetings of the Board and of the Unit Owners, and who shall, in general, perform all the duties incident to the office of Secretary, and who may be a representative of the Managing Agent;

(c) a Treasurer, who shall be responsible for financial records and books of account and the manner in which such records and books are kept and reported; and

(d) such additional officers as the Board shall see fit to elect.

SECTION 2. Powers. The respective officers shall have the general powers usually vested in such officers; provided that the Board may delegate any specific powers to any other officer or impose such limitations or restrictions upon the powers of any officer as the Board may see fit.

SECTION 3. Term of Office. Each officer shall hold office for the term of one year and until his successor shall have been appointed or elected and qualified.

SECTION 4. Vacancies. Vacancies in any office shall be filled by the Board by a majority vote of the remaining members thereof at a special meeting of said Board. Any officer so elected to fill a vacancy shall hold office for a term equal to the unexpired term of the officer he succeeds. Any officer may be removed for cause at any time by vote of two-thirds (2/3) of the total membership of the Board at a special meeting thereof.

SECTION 5. Compensation. The officers shall receive no compensation for their services as officers, unless expressly provided for in a resolution duly adopted by a majority of the Unit Owners.

ARTICLE IV

Assessments

SECTION 1. Annual Budget. The Board shall cause to be prepared an estimated annual budget for each fiscal year of the Association. Such budget shall take into account the estimated common expenses and cash requirements for the year, including but not limited to salaries, wages, payroll taxes, legal and accounting fees, working capital fund, supplies, materials, parts, services, maintenance, repairs, replacements, landscaping, insurance, fuel, power, and all other common expenses. To the extent that the assessments and other cash income collected from the Unit Owners during the preceding year shall be more or less than the expenditures for such preceding year, the surplus or deficit, as the case may be, shall also be taken into account. The annual budget shall also take into account the estimated net available cash income for the year from the lease, operation or use of the Common Elements. The annual budget shall provide for a reserve for contingencies for the year and a reserve for replacements, in reasonable amounts as determined by the Board. The annual budget shall not require an assessment of Unit Owners for common expenses in an amount exceeding one hundred ten percent (110%) of the common expenses for the preceding year unless such budget is approved by a majority vote of Unit Owners.

SECTION 2. Assessments. The estimated annual budget for each fiscal year shall be approved by the Board, and copies thereof shall be furnished by the Board to each Unit Owner, not later than thirty (30) days prior to the beginning of such year. On or before the first day of the

first month and of each succeeding month of the year covered by the annual budget, each Unit Owner shall pay, as his respective monthly assessment for the common expenses, one-twelfth (1/12) of his proportionate share of the common expenses for such year as shown by the annual budget. Such proportionate share for each Unit Owner shall be in accordance with his respective ownership interest in the Common Elements, as set forth in Exhibit B of the Declaration. In the event that the Board shall not approve an estimated annual budget or shall fail to determine new monthly 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. Each Unit Owner shall pay his monthly assessment on or before the first day of each month to the Managing Agent or as may be otherwise directed by the Board. No Unit Owner shall be relieved of his obligation to pay his assessment by abandoning or not using his Unit, the Common Elements, or the Limited Common Elements.

SECTION 3. Partial Year or Month. For the first fiscal year, the annual budget shall be as approved by the First Board. If such first fiscal year, or any succeeding fiscal year, shall be less than a full year, then the monthly assessments for each Unit Owner shall be proportionate to the number of months and days in such period covered by such budget. Commencing with the date that a Unit Owner acquires ownership of his Unit, each Unit Owner, shall pay his assessment for the following month or fraction of a month, which assessment shall be in proportion to his respective ownership interest in the Common Elements and the number of months and days remaining of the period covered by the current annual budget, and which assessment shall be as computed by the Board.

SECTION 4. Annual Report. Within ninety (90) days after the end of each fiscal year covered by an annual budget or as soon thereafter as shall be practicable, the Board shall cause to be furnished to each Unit Owner a statement for such year so ended, showing the receipts and expenditures and such other information as the Board may deem desirable.

SECTION 5. Supplemental Budget. In the event that during the course of any year, it shall appear to the Board that the monthly assessments, determined in accordance with the estimated annual budget for such year, are insufficient inadequate to cover the estimated common expenses for the

remainder of such year, then the Board shall prepare and approve a supplemental budget covering the estimated deficiency for the remainder of such year, copies of which supplemental budget shall be furnished to each Unit Owner, and thereupon a supplemental assessment shall be made on each Unit Owner for his proportionate share of such supplemental budget.

SECTION 6. Expenditures. Except for the Management Agreement described in Article II, Section 8(c) hereof and expenditures and contracts specifically authorized by the Declaration and By-Laws, the Board shall not approve any expenditure in excess of Twenty-five Thousand Dollars (\$25,000) unless required for emergency repair, protection or operation of the Common Elements or Limited Common Elements, nor enter any contract for more than five (5) years without the prior approval of two-thirds (2/3) of the total ownership of the Common Elements.

SECTION 7. Lien. It shall be the duty of every Unit Owner to pay his proportionate share of the common expenses as provided in the Declaration, and as assessed in the manner herein provided.

If any Unit Owner shall fail or refuse to make any such payment of the common expenses when due, the amount thereof together with interest thereon at the maximum lawful rate of interest per annum after said common expenses become due and payable, shall constitute a lien, as provided in the Declaration, enforceable by the Board, on the interest of such Unit Owner in the Property; provided, however, that such lien shall be subordinate to the lien of a prior recorded first mortgage on the interest of such Unit Owner, except for the amount of the proportionate share of common expenses which are due and payable from and after the date on which such Mortgagee or holder either takes possession of the Unit, accepts conveyance of any interest therein (other than as security) or files suit to foreclose its Mortgage or causes a receiver to be appointed to take possession of the Unit. The provisions of this paragraph of this Section 7 shall not be amended, changed, modified or rescinded in any way without the prior written consent of all holders of record of Mortgages against Units.

The Association or its successors and assigns, or the Board or its agents, shall have the right to maintain a suit to foreclose any such lien for unpaid assessment, and there shall be added to the amount due the costs of said suit.

and other fees and expenses, together with interest and reasonable attorneys' fees to be fixed by the court. The Board or the Association shall have the authority to exercise and enforce any and all rights and remedies as provided for in the Act, the Declaration or these By-Laws, or as are otherwise available at law or in equity, for the collection of all unpaid assessments.

SECTION 8. Records and Statement of Account. The Board shall cause to be kept the records required by the Act and detailed and accurate records of the receipts and expenditures affecting the Common Elements and Limited Common Elements specifying and itemizing the common expenses incurred. Payment vouchers may be approved in such manner as the Board may determine.

The Board shall, upon receipt of ten (10) days' written notice to it or the Association and upon payment of reasonable fee, furnished to any Unit Owner a statement of his account setting forth the amount of any unpaid assessments or other charges due and owing from such Owner.

SECTION 9. Discharge of Liens. The Board may cause the Association to discharge any mechanic's lien or other encumbrance which in the opinion of the Board may constitute a lien against the Property or the Common Elements, rather than a lien against only a particular Unit ownership. When less than all the Unit Owners are responsible for the existence of any such lien, the Unit Owners responsible shall be jointly and severally liable for the amount necessary to discharge the same and for all costs and expenses, including attorneys' fees, incurred by reason of such lien.

SECTION 10. Holding of Funds. All funds collected hereunder shall be held and expended for the purposes designated herein and in the Declaration, and (except for such special assessments as may be levied hereunder and under the Declaration against less than all the Unit Owners and for such adjustments as may be required to reflect delinquent or prepayment assessments) shall be deemed to be held for the benefit, use and account of all the Unit Owners in the percentages set forth in Exhibit B of the Declaration.

ARTICLE V

Use and Occupancy Restrictions

SECTION 1. General. Each Unit Owner shall comply with the use and occupancy restrictions set forth in the Declaration. No unlawful, noxious or offensive activities shall be carried on in any Unit or elsewhere on the Property nor shall anything be done therein or thereon which shall constitute a nuisance or which shall in the judgment of the Board cause unreasonable noise or disturbance to others.

Each Unit Owner shall maintain his Unit in good condition and in good order and repair, at his own expense, and shall not do or allow anything to be done in his Unit which may increase the cost or cause the cancellation of insurance on other Units or on the Common Elements. No Unit Owner shall display, hang, store or use any clothing, sheets, blankets, laundry or other articles outside his Unit, or which may be visible from the outside of his Unit (other than draperies, curtains, or shades of a customary nature and appearance, subject to the rules and regulations of the Board), or paint or decorate or adorn the outside of his Unit, or install outside his Unit any canopy or awning, or outside radio or television antenna, or other equipment, fixtures or items of any kind, without the prior written permission of the Board or the written permission of the Managing Agent, acting in accordance with the Board's direction. The foregoing restrictions as to use and occupancy shall not be construed to prohibit a Unit Owner from placing and maintaining outdoor furniture and decorative foliage of a customary nature and appearance on balcony, patio or terrace constituting Limited Common Elements for such Unit Owner's Unit.

SECTION 2. Animals. No animal or animals shall be kept within any Unit or on the Property without the prior written consent of the Board or the prior written consent of the Managing Agent acting in accordance with the Board's direction, provided, however, that either the Board or the Managing Agent may withdraw its consent previously given with respect to a particular animal if such animal shall in any way cause any damage or injury of any kind or nature whatsoever to the Property or to any Occupant or which shall create any nuisance or unreasonably interfere with, annoy or disturb any Occupant in the use and enjoyment of his Unit or the Common Elements or which shall violate any law, ordinance, order, rule or regulation (state, federal, municipal or any other governmental)

body having jurisdiction thereof) relating to the keeping of animals, or violate any rule or regulation prescribed by the Board from time to time, or which shall in any way endanger the Occupants or the Property. The determination of the Board on all matters related to the granting or withdrawal of such consent shall be final. In no event shall any animal be permitted in any of the public portions of the Building or on the Property unless carried on a leash.

Any Occupant who shall keep an animal within a Unit or on the Property shall defend, indemnify and hold harmless the Declarant, the directors, Board and officers of the Association, its agents, servants and employees, and all other Occupants from and against any and all loss, cost, damages, expense (including attorneys' fees) and liability in connection with claims for damages as a result of injury or death of any person or property damage to any property caused by or in connection with the keeping of such animal.

If an animal kept within a Unit or on the Property shall cause any damage or injury to any property or person for which the Association is held liable, the Unit Owner who is the owner or keeper of such animal (or whose agent, servant, tenant or family member is the owner or keeper of such animal) shall pay to the Association an amount equal to such liability; however, the provisions of this Paragraph are subject to the provisions of Paragraph 13 of the Declaration of Condominium for River Stone I providing for waiver of subrogation rights with respect to casualty damage insured against under the policies of insurance maintained by the Board. Failure or refusal of a Unit Owner to pay such amount shall result in a lien on the interest of the Unit Owner in the Property which shall be the same for all purposes as a lien for unpaid common expenses pursuant and subject to the provisions of Article IV, Section 7, hereof.

No Unit Owner or Occupant shall keep or breed any animal for commercial purposes within any Unit or on the Property.

SECTION 3. Trash. Trash, garbage and other waste shall be kept only in sanitary containers, and shall be disposed of in a clean and sanitary manner as prescribed from time to time in rules and regulations of the Board.

SECTION 4. Use by Declarant. During the period of sale by the Declarant of any Units, the Declarant and its agents, employees, contractors and sub-contractors, and their respective agents and employees, shall be entitled to access, ingress to and egress from the Buildings and Property as may be required for purposes of said sale of Units. While the Declarant owns any of the Units and until each Unit owned by it is occupied by the purchasers, the Declarant and its employees may use and show one or more of such unsold or unoccupied Units as a model Unit or Units and may use one or more of such unsold or unoccupied Units as a sales office, and may maintain customary signs in connection therewith.

SECTION 5. Storage. Articles of personal property belonging to any Unit Owner, such as baby carriages, bicycles, wagons, toys, furniture, clothing and other articles, shall not be stored or kept in the corridors, hallways, lobby or other common areas, except in common storage areas and storage lockers specifically designated for the respective Unit Owner from time to time by the Board or by the Managing Agent acting in accord with the Board's direction.

SECTION 6. Wiring. No Unit Owner shall overload the electrical wiring in the Buildings, or operate any machine appliances, accessories or equipment in such manner as to cause, in the judgment of the Board, an unreasonable disturbance to others, or connect any machines, appliances, accessories or equipment to the heating or plumbing system, without the prior written consent of the Board or the prior written consent of the Managing Agent, given in accord with the Board's direction.

ARTICLE VI

Contractual Powers

No contract or other transaction between the Association and one or more of its directors or between this corporation and any corporation, firm or association in which one or more of the directors of this corporation are directors, or are financially interested, is void or voidable because such director or directors are present at the meeting of the Board or a committee thereof which authorizes or approves the contract or transaction or because his or their votes are counted, if the circumstances specified in either of the following subparagraphs exist:

(a) the fact of the common directorship or financial interest is disclosed or known to the Board or committee and noted in the minutes and the Board or committee authorizes, approves or ratifies the contract or transaction in good faith by a vote sufficient for the purpose without counting the vote or votes of such director or directors; or

(b) the contract or transaction is just and reasonable as to the corporation at the time it is authorized or approved.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or a committee thereof which authorizes, approves or ratifies a contract or transaction.

ARTICLE VII

Amendments

Any modification or amendment of these By-Laws shall be made only by means of an amendment of the Declaration as provided therein. Such amendments shall be maintained in the corporate records of the Association.

ARTICLE VIII

Indemnification

SECTION 1. General. The Association shall indemnify and hold harmless each of its directors and officers, each member of any committee appointed pursuant to the By-Laws of the Association, and the Board, and Declarant, against all contractual and other liabilities to others arising out of contracts made by or other acts of such directors, Board, officers, committee members, or Declarant, on behalf of the Unit Owners, or arising out of their status as directors, Board, officers, committee members, or Declarant, unless any such contract or act shall have been made fraudulently or with gross negligence or criminal intent. It is intended that the foregoing indemnification shall include indemnification against all costs and expenses (including, but not limited to, counsel fees, amounts of judgments paid and amounts paid

settlement) reasonably incurred in connection with the defense of any claim, action, suit or proceeding, whether civil, criminal, administrative or other, in which any such director, officer, Board, committee member, or Declarant may be involved by virtue of such persons being or having been such director, officer, Board, committee member, or Declarant. Provided, however, that such indemnity shall not be operative with respect to (a) any matter as to which such person shall have been finally adjudged in such action, suit or proceeding to be liable for gross negligence or fraud in the performance of his duties as such director, officer, Board, committee member, or Declarant, or (b) any matter settled or compromised, unless, in the opinion of independent counsel selected by or in a manner determined by the Board, there is not reasonable ground for such persons being adjudged liable for gross negligence or fraud in the performance of his duties as such director, officer, Board, committee member, or Declarant.

SECTION 2. Success on Merits. To the extent that the Declarant or a member of the Board of Directors or an officer of the Association or a member of any committee appointed pursuant to the By-Laws of the Association has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 3. Advance Payment. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Association in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the person or entity seeking such indemnification or payment in advance to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Association as authorized in this Article VIII.

SECTION 4. Miscellaneous. The Association and the Board shall have the power to raise and the responsibility for raising, by special assessment or otherwise, any sums required to discharge its obligations under this Article; provided, however, that the liability of any Unit Owner arising out of any contract made by or other acts of the directors, Board, officers, members of such committees, or Declarant, or out of the aforesaid indemnity in favor of the

Directors, Board, officers, members of such committees, or Declarant, shall be limited to such proportion of the total liability hereunder as said Unit Owner's percentage of interest in the Common Elements bears to the total percentage interest of all the Unit Owners in the Common Elements. Any agreement made by the directors, Board, officers, members of such committees, or Declarant or by the Managing Agent on behalf of the Unit Owners shall provide that the directors, Board, officers, members of such committees, Declarant or the Managing Agent, as the case may be, are acting only as agents for the Unit Owners and shall have no personal liability thereunder (except as Unit Owners), and that each Unit Owner's liability thereunder shall be limited to such proportion of the total liability thereunder as his percentage of interest in the Common Elements bears to the total percentage interest of all Unit Owners in the Common Elements. The indemnification provided by this Article VIII shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any statute, agreement, vote of members of the Association or interested members of the Board of Directors or otherwise, in so far as to action in his official capacity and as to action in any other capacity while holding such office. Such right to indemnification shall continue as to a person or entity who has ceased to be Declarant or a member of the Board of Directors, officer of the Association or a member of such committee, and shall inure to the benefit of the heirs, administrators, successors and assigns of such person or entity.

ARTICLE IX

Definition of Terms

The terms used in these By-Laws, to the extent they are defined in said Declaration, shall have the same meaning as set forth in the Declaration of Condominium for River Stone I, recorded in the Office of the County Clerk of Harris County, Texas, as the same may be amended from time to time. The term "member," as used in these By-Laws, means "Unit Owner" as defined in the Declaration.

In the event of any conflict between the terms and provisions of these By-Laws and the Declaration, the provisions of the Declaration shall control. These By-Laws shall not be amended or altered in any manner inconsistent with the provisions of the Declaration.