To: Patrick Starley[pstarley@cielopef.com]
From: Rulon Starley (CM)[jstarley@copaair.com]
Sent: Thur 1/9/2014 2:22:55 PM Coordinated Universal Time
Subject: Re: Buffington

I think the window to do this is narrow. This reply can serve as the trigger.

Sent from my iPhone

On 01/09/2014, at 09:20, "Patrick Starley" <pstarley@cielopef.com<mailto:pstarley@cielopef.com>> wrote:

No. Not yet.

Patrick J. Starley
CEO & Managing Partner
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Office Tel 512.328.0000<tel:512.328.0000>
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On Jan 9, 2014, at 8:04 AM, "Rulon Starley (CM)" <jstarley@copaair.com<mailto:jstarley@copaair.com>> wrote:

Did you construct the take over plan I suggested last week? First step needs to be a plan to take UDF out.
Sent from my iPhone

On 01/09/2014, at 08:49, "Patrick Starley" <pstarley@cielopef.com<mailto:pstarley@cielopef.com><mailto:pstarley@cielopef.com>> wrote:

Bs bs bs.

His total compensation engages from 24- 30 k per month.

I will forward an email stating so.

This is misleading once again.

Patrick J. Starley
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On Jan 9, 2014, at 7:31 AM, "Rulon Starley (CM)" <jstarley@copaair.com<mailto:jstarley@copaair.com><mailto:jstarley@copaair.com>> wrote:

Thoughts?

Sent from my iPhone

Begin forwarded message:

From: Matt Taylor <mtaylor@mybuffington.com<mailto:mtaylor@mybuffington.com><mailto:mtaylor@mybuffington.com><mailto:mtaylor@mybuffington.com>>
Date: 8 de enero de 2014 16:47:41 GMT-5
To: "Jim Starley (jstarley@copaair.com<mailto:jstarley@copaair.com><mailto:jstarley@copaair.com><mailto:jstarley@copaair.com>)"
<jstarley@copaair.com<mailto:jstarley@copaair.com><mailto:jstarley@copaair.com><mailto:jstarley@copaair.com>>
Cc: Tom Buffington
<Tbuffington@mybuffington.com<mailto:Tbuffington@mybuffington.com><mailto:Tbuffington@mybuffington.com><mailto:Tbuffington@mybuffington.com>>
Subject: Buffington

Good Afternoon Mr. Starley,

I am forwarding you an email that Tom sent to me. Tom has asked me to attach the Homebuilding takedown schedule to go along with his response to your questions below.

Best Regards,
Matt Taylor

DISCLAIMER:

<image001.png>

From: "Rulon Starley (CM)" <jstarley@copaair.com<mailto:jstarley@copaair.com><mailto:jstarley@copaair.com>>
Date: December 25, 2013 at 5:06:55 PM CST
To: "Rulon Starley (CM)" <jstarley@copaair.com<mailto:jstarley@copaair.com><mailto:jstarley@copaair.com>>
Subject: Buffington

1. Business is set up to provide high salaries and life style to Buffington's. Your salary needs to be tied to distributions to investors. Blake and Dorney's salaries need to be tied to performance metrics that target acceptable distributions to investors. That was the business ethic we anticipated when investing and those are the expectations now.
Jim, my gross salary and Blake's gross salary is $15,000 per month from Homebuilding. James Dorney's salary is $23,333 per month from Homebuilding. In my experience these salaries are below market, not extravagant, and well below the limits set forth in the Limited Partnership Agreement for such matters. Although I understand your desire for us to be tied to distributions I do not think it is appropriate or necessary.
2. My perception is that UDF continues to exert undo influence on strategic management decision at the expense of the investors and to the detriment of the business entity. Developed lots on the company's balance sheet increased from 1.2 million to 5.8 million in November. Those ratios exceeded what has traditionally been carried by the company on the balance sheet, used a significant amount of cash and benefited UDF at the expense of the home building investors. Problems of an insolvent land company were addressed by the home building company at significant cost to the home building investors in terms of cash available for distributions and increased debt on the company's balance sheet. Getting both entities clear of UDF influence needs to become a priority in management strategy. We want to help and insist that it is addressed in the first part of 2014.
UDF did not force us to buy the lots. It was my decision to purchase the lots for several business reasons, including:

· We were behind on our contractual takedown obligations. Had we failed to purchase the lots we would have greatly impaired our ability to buy them at all, and of course a supply of lots is critical to future business.

· Commercial lending facilities were available to finance the acquisition of the lots with an average interest rate of 5.26% and an average LTV of 72.06%. Additionally, private lending was also utilized with an interest rate of 10% and a LTV of 85%.

· There was very little cash needed to buy these lots.
3. Buffington's performance in a strong market is anemic. Both market share and net unit sales is down From 2011 (a much weaker year), market share declined significantly over the past 2 years and the company has not kept pace with the increasing market (as demonstrated by under performance to market trends by 60 units). This is not acceptable, but typical of a company with the management compensation structure existing at Buffington.
I disagree with the metric you have chosen. I made the business decision to raise prices and profit margins in order to maximize per unit profitability of this company in a market with depleting lot availability. As a result, we made as much if not more profit as we would if I had not raised prices and we continued to sell more units with lower margins. 2011 unit sales were inflated due to the need to create free cash flows. The needed cash was generated by selling our excessive surplus of inventory homes from 2010 for huge losses. Even with slower sales in 2013 our closings were up nearly 20% over our closings in 2012.
4. The lack of transparency in lot takedown obligations and UDF's role in determining same was shown on the recent investor call to be opaque. That factor needs to be transparent to the investors. We would like to understand exactly what takedown obligations were satisfied by this action,
When we purchased the inventory lots we got the following take down obligations current:
Bridges of Bear Creek 60's – Phase 2.2
Bridges of Bear Creek 50's – Phase 1.2
Villages of Hidden Lake 60's – Phase 5A
Villages of Hidden Lake 50's – Phase 5B
Villages of Hidden Lake 50's – Phase 4C
Highpointe 75's – Phase 5.2
Highpointe 75's – Phase 4.2
Silver Leaf 65's – Phase 2
Reserve at Westcreek
Blanco Vista
what the status of remaining back obligations look like, whether or not there have been any pricing adjustments made to lots being purchased from Buffington Land entities, if so, when and how much?
There have not recently been any pricing adjustments made on the lots being purchased from Buffington Land entities.
What is technically under contract to Buffington Homes from future Buffington Land sections? What does the option structure looks like for future Buffington Land sections and if these lots are not under option then why not and please do so as quickly as possible to protect the value of our company. See attached excel file for the Master HB takedown schedule.

5. We need to see a long term plan to enhance returns to investors while at the same time keeping an appropriate level of liquidity in the company. 4-6m per year in earnings will barely retire the preferred return balance over a 3 year period and will drag out total capital recovery well past 2020. We need a business structure that creates 10-12 million per year in earnings to accelerate our capital recovery. There are several private building companies that were started around the same time as Buffington that are performing to this level. We think this is the biggest mark on current managements long term viability and need to have a realistic and unbiased conversation on what can be done with real accountability to performance.
We will continue to work to appropriately grow the net income of the Company, but in order to achieve 10-12 million in net income we would have to double the size of our company, our cash, interim financing capacity, lot positions etc. A significant challenge would be having enough land and lot supply to support the 10-12 million a year in net income; once again this proves the necessity of maintaining a working relationship with UDF. Currently, Homebuilding could have the opportunity to buy lots in 7 new subdivisions towards the end of 2014 or beginning of 2015 which will result from Buffington Land transactions which are approaching acquisition and development.

6. I would suggest a strategic governance structure that would place TBB, Sr., PJS plus two elected investors on a BOD. There is an enormous amount of talent within the investor group. Those of us who invested in this company did so based on a TB, PS partnership. Blake and Dorney are underperforming and do not have our confidence and are not the individuals with whom we entrusted our capital. In my view their role needs to be confined to operations and their compensation performance based.
I am not interested in changing the governance structure.
7. Starleys own 34% of this company! and our friends run that percentage to a majority. We can make this a win/win for both of our families but the structure needs to change to make a long term win for anyone possible. We want to see change and will help ensure success.

I disagree with your conclusions about a need to change the structure and your suggestions for returning PJS to management. I appreciate your time, thoughtful comments and perspective on these matters, but respectfully decline to change the way I am managing the Company.
Tom
<Master HB Takedown Schedule.xlsx>

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