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Date: 8 de enero de 2014 16:47:41 GMT-5
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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

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

Jim Starley original in BLACK

Tom Buffington's responses from 1-9-14 in BLUE

Jim Starley's possible responses in RED

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.

Response:

Tom, my point is to total monthly compensation regardless of nomenclature. My understanding is you have additional compensation in the form of something called a "guaranty fee" that you receive every month in addition to a "salary" brining your total compensation above 25 thousand dollars per month; that is not exactly a paltry amount. Are there any other of these types of additional compensation amounts being paid to Blake or James? Can you have someone point me to the specific sections within the Limited Partnership Agreement that set the compensation limits you referenced? I think you should rethink your position on this matter and align yourself better with your investors as it is at very best bad form given the under performance of the investment and the significant amount of money that has been received by management since inception of this company.

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.

Response:

Tom, Do you mind providing a written characterization of your early September meeting with UDF. When we met on the 26th of Decenebr you seemed to indicate to both Greg Starly and myself that the relationship was very problematic and was one that you desired to rid the company from. Your statements in this email seem a bit conflicting. It is our understanding that the primary discussion points in that meeting were around lot takedowns and their insistence that you enforce contractual obligations of the homebuilding company that had previously not been enforced. From our perspective it seems very clear that UDF was the single reason that the lots were taken down and had it not been for their insistence Buffington Homes would have continued to take lots as needed from Buffington Land in line with the practice that has been in place for years. Surely Buffington Homes's non-compliance with the Lot contracts is not a new happenstance. I also read your comments to mean that you as manager of both entities would have made the decision to terminate Buffington Homes lot supply for the benefit of your land entity. One of the primary reasons I made this investments were the assurances made by management that Buffington homes would benefit from the lot supply of Buffington Land.

Can you please provide some guidance surrounding your comment that "little cash was needed to buy these lots."? In looking at the November financial statements, it appears that there are 5.8m total developed lots on the balance sheet with 3.6m of associated debt. Where did the other 2.2m dollars come from that rounds out the balance? Surly 2.2m with a company the size of ours is not seen a "little cash"?

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.

Response:
Tom,

What else can be done to increase volume and hold margins. You are building in one of the strongest housing market in the United States. I have looked at some of the earnings data from some of your competitors and it looks like they were able to achieve both significant margin expansion as well as unit growth that was at or above trend. Would management please re-access its sales leadership and provide an alternative plan that would raise the company's performance levels on par with its competitors?

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.

Response:

Tom, I appreciate you forwarding the Master takedown schedule but it does not address what is under control of Buffington Land including future sections of lots to be developed and how much of those future sections are allocated to Buffington Homes through anticipated option agreements. This goes back to the lack of transparency that seems to persist across the entire organization. It is important to understand how deep the potential lot supply is at any given time and what or what not has been optioned by our homebuilding company. As stated above it was in part through the assurances made by management regarding access to the Buffington land lot supply that we made the investment and believe maintaining full access to it while under control by you to be paramount for maximizing the value of our company. Please provide a simple schedule that shows The following data:

Subdivision name, Lot size, total number of lots Developed/future total number of future lots under contract or option to Buffington.

When was the last time a price increase occurred for each one of the Buffington Land subdivisions that Buffington homes utilizes and how much were said increases. Thank you.

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.

Response:
Tom, I am not sure that I fully understand your response. It looks like you have secured 7 new communities. As I review our numbers it appears that under normalized interest rates, you produce 2m dollars in profit for every 10m in revenue above break even. It appears that increasing revenue by 30m dollars per year would raise the company's profitability above ten million dollars. Based on our current community count yields as well as our average sales price it appears that the additional 7 communities you speak of would allow us to achieve this mark.

With regards to interim construction capacity it appears based on a September 30th report provided by Kyle Minter that your capacity is sufficient to account for the increase production needs.

We need to see a real business plan that targets these goals and there needs to be accountability for achieving them. This is the primary issue with the compensation structure as it exists and certain key individuals in management. We insist that this is rectified.

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.

Response:

Tom, the Governance structure needs to change. You are conflicted within every entity in your organization and good decisions are not being made. This is evidenced with the forced lot takedowns, the failure to pay off the Brushy Creek loan which has now put our remaining investment at risk for foreclosure (my understanding is James Dorney represented to everyone that the JV partner had agreed to allow for funds from the JV entity to be distributed to Buffington Brushy Creek to allow for the payoff – this seriously calls to question at the very least his competency and also his ethics, this is who you chose to run our company?) and the problems with MUD. I also understand through Greg that there have been significant issues of trust regarding the Land investment. You have a talented investor group who can really help you if you let them but they expect action and insist on providing guidance and governance going forward. You and Patrick are both ethically and morally obligated to maximize their value and both of you need to finally put them first and come to the realization that it is the investors and not you nor Patrick that own this company until you have paid us back with our return. Running this as a lifestyle business has gone on long enough and we insist that we have a seat at the table going forward.

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