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October 14, 1994

Mr. Pat Carmichael
Limited Edition Homeowners Assoc.

Hand Delivered

Re: Settlement of Lawsuit Against Tittle

Dear Pat:

As I related to you over the telephone this morning, I had a long conference at my office with Lee Davis and Bill Wray, attorneys for Walt Tittle and Tittle Construction. The purpose of the conference was to lay out for me the current status of the insurance companies' defenses to payment of any insurance proceeds in behalf of Tittle, and the probable steps which Walt Tittle will take in the event that the lawsuit is not settled. Walt Tittle has consulted with Shelburne Ferguson, a bankruptcy attorney in Kingsport. A Chapter 7 bankruptcy would completely alleviate any liability which Walt Tittle, Tittle Construction, or Tittle and Tittle would have to the Homeowners, but leave intact the Tittle counterclaim against Janet Neal and Al Gregory for recovery under that counterclaim he filed. As we acknowledged together, Joe Fuller, attorney in Kingsport, has been hired by Unigard to defend that counterclaim.

The fact of the matter is that Walt Tittle is virtually judgment proof. We can fight this case to the last drop of our collective blood, and any judgment which we obtain would be uncollectible. Fortunately, the insurance companies believe that the costs of defending the lawsuit are substantial enough that they are willing to pay money for settlement of the lawsuit.

You related to me that Lee Davis, attorney, had been in personal contact with you regarding potential settlement of the lawsuit, and you gave me the terms of the settlement as you and he had discussed. As I told you, all the terms discussed between you and Mr. Davis are no longer valid.

Enclosed is a copy of a 5-page letter dated October 13, 1994, which I have received from Bill Wray, which does outline precisely what the potential settlement terms are. Please note that Mr. Wray is still negotiating with all the insurance companies involved and that he has agreement from some, but not all, and therefore, he cannot couch the letter in terms of an offer. The letter is a proposal for the Plaintiffs to send a settlement offer to the Defendants that the Plaintiffs would be willing to accept if the Defendants agree to it. Hopefully, Mr. Wray would be able to obtain agreement from all the insurance companies before the end of next week.

I have already told you that my legal analysis of the defenses of the insurance companies leads me to agree that the terms of the policies do not cover Tittle for the types of claims which the Plaintiffs have in this case. I do not believe that the "lack of notice" defense is necessarily good, but the policy terms which do not insure performance, completion, or construction, are viable and offer excellent defenses in favor of the insurance companies against any liability to Tittle. We are stuck with the Tittle policies and their

terms. We have no standing to complain about the provisions of the policies which Tittle purchased. The problem with timing in this case now is that the insurance companies are taking the deposition of Walt Tittle next week and following his deposition, the insurance companies will be filing Motions for Summary Judgment against Walt Tittle and Tittle Construction Company in Federal Court under their policy defenses. There appears to be little likelihood that the Motions will not be granted. Once the Motions for Summary Judgment are granted in favor of the insurance companies, we can kiss the settlement goodbye.

In a nutshell, and hopefully clearly, I will now set forth the terms of the settlement proposal which the Defendants want the Plaintiffs to agree to:

1. Walt Tittle would borrow a total of $300,000.00, cash, toward the purchase of the King, Collins, and Usary units. If the Kings, Ms. Usuary, or Ms. Collins wanted a higher purchase price than $100,000.00 per unit, the balance of the purchase price would have to be paid by the Homeowners Association out of the cash coming from the insurance companies.

2. The King, Collins, and Usary units, would be deeded to Walt Tittle and the deeds would contain Covenants Running With the Land which would remove all liability of the Homeowners Association for any future repairs or upkeep to the units. Therefore, no structural or roof, etc., repairs would have to be paid for in the future by the Homeowners Association in connection with the King, Collins, and Usary units. Those units would still, however, be responsible to pay their usual monthly Association fees since fire insurance, mowing, street maintenance, etc., would still have to be provided by the Homeowners Association.

3. Leases (of terms yet to be determined) would have to be executed on the King, Collins, and Usary units, by someone, for a monthly rental of approximately $1,000.00 to $1,200.00 per month. Tittle's attorneys say he has to have a cash flow to carry the mortgages on the houses for a period of time, especially through the Winter months, because he cannot do any repairs during the Winter. Obviously, no one could live in the units during the time Tittle does whatever repairs or reconstruction he plans to do. I do not know whether Ms. Usuary, Ms. Collins, or Mr. and Ms. King would be willing to lease the units back during such a period of time, and that is something we will have to find out. Otherwise, it would appear to me that it would be Tittle's problem to find renters for the units.

4. One of the vacant lots next door to the Strickland unit would be conveyed to the Homeowner Association. Tittle says that the lot is worth $25,000.00. He does not want to convey both lots because he wants to have the second lot available to sell for cash if necessary to help toward the repair of the 3-units being purchased.

5. The Insurance Companies would pay a cash amount of $190,000.00 as the final settlement amount. Please note the additional comment made by the defense attorneys that Unigard has been approached on the Tittle counterclaim for a contribution of $10,000.00 toward the $190,000.00 total amount.

Assuming that the lot is sold for $25,000.00, the total cash proceeds available to the Association would be $215,000.00. The total settlement value would be $515,000.00, or over one-half million dollars.

Enclosed with this letter are the handwritten notation estimates of contractor, Joe Hale, for repairs to the following units:

Unit 16, Gregory	$1,925.00
Unit 18, Clyce	$1,700.00
Unit 32, Glassford	$3,970.00
Unit 40, Sparks (Notes that no one was home)	$100.00
Unit 42, Hawnn	$100.00
Unit 44, Brown	$1,940.00
Unit 54, Rich	$925.00
Unit 56, Neal	$1,125.00
Unit 62, Roe	$2,200.00
Unit 64, Floyd	$1,000.00

Mr. Hale has verbally stated to the defense attorneys that he could install seven (7) french drains (at locations not identified) for a cost of $2,000.00 each. Despite Lee Davis' statements or indications to you, there is no agreement for design approval by the City Engineer. Tittle has told his defense attorneys that he is washing his hands of Limited Edition and will not undertake any repairs to any of the other units other than the King, Collins, and Usary units which he proposes to purchase. Therefore, there would be no future fall back on Tittle in the event that the repairs did not cure the unit problems.

Again, the defense attorneys have indicated to me that any purchase price for the King, Collins, and Usary units, over and above the $300,000.00, would have to be paid by the Homeowners Association out of the $215,000.00 in cash.

The settlement comes no where near being enough to compensate the Plaintiffs for the damages suffered, but I am afraid that fact no longer matters. I am convinced that if we do not settle this case, we will end up with nothing, absolutely nothing. The satisfaction of getting of big judgment against Tittle, which is uncollectible, is worth nothing. At this point, all the Homeowners Association can do is throw good money after bad. In my opinion, every dime spent on the prosecution of this case from this point on is wasted for all that it will be worth on an uncollectible judgment. The threat of the Bankruptcy is real and must be treated as such.

I have gone to the Register's Office in Washington County, and obtained copies of the real estate assets of Walt Tittle as well as a listing of the deed of trust liens against the properties. Many of the most valuable tracts of land are held by Tittle in joint name with his wife. We have absolutely no claim against Tittle's wife. There appears to be little doubt that she will outlive Tittle, especially in view of his smoking and drinking habits, which are well known in the community. By Monday, the 17th, I have been promised an audited financial statement on Tittle Construction Company, which supposedly shows 2-years of financial data, which will confirm that no more settlement funds can be expected from Tittle. Disclosure of the audited statement will be subject to restriction, and I may be able to show it only to you, Pat, and certain other board members.

I simply cannot permit, under the circumstances, one-half million dollars of potential settlement to be lost. Unfortunately, we either take one-half million dollars and settle, or we end up with $$zero. Like it or not, we have no choice.

Therefore, it is my strong recommendation that the proposal to settle the case upon the above terms be accepted, and that I be given permission to send a letter to the defense attorneys proposing such a settlement.

I would appreciate your arranging a meeting with the Board of Directors of the Association for Monday evening, October 17, 1994, at which time we can all discuss the situation and determine our course of action. Thank you.

Very truly yours,

WELLER, MILLER, CARRIER, MILLER & HICKIE

BY: James B. Miller II

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