

J. P. KING AUCTION COMPANY, INC.

TERMS OF AUCTION

The Waterstone Condominiums Lago Vista (Travis County), Texas Sunday, November 15, 2009 at 2:00 PM (CT)

J. P. King Auction Company, Inc. ("King"), an Alabama corporation headquartered at 108 Fountain Avenue in Gadsden, Alabama 35901 (telephone 800-662-5464 or 256-546-5217 and facsimile 256-543-8036) and its Texas broker, Stephen Edward Gore, broker of record ("Broker") whose address is 6333 East Mockingbird Lane, Suite 147606, Dallas, Texas 75214 (King and its Broker being referred to herein collectively as "Auctioneer") have contracted with Waterstone Development, LP ("Seller") to offer to sell at public auction ("Auction") certain real property ("Property"). These terms, plus any additions, deletions, and/or revisions announced by Auctioneer before the commencement of the Auction, represent the exclusive terms for the Auction ("Terms of Auction").

1. **AGENCY:** Auctioneer is acting exclusively as an agent for Seller and not as an agent for any Bidder or Buyer. No third-party broker is acting as a sub-agent of Auctioneer.

2. **COLLUSION:** Bid-rigging is a federal felony punishable by imprisonment and fine. Auctioneer will report all illegal conduct to the F.B.I. and cooperate with any prosecution.

3. **COPYRIGHT:** The Auction is the exclusive intellectual property of Auctioneer, covered by copyright protection, and may not be recorded, reproduced, or used in any form by anyone other than Auctioneer.

4. **PROPERTY:** The Property is described in the "Real Property Sale Contract" ("Sale Contract"), a copy of which is available from Auctioneer, online at www.jpking.com, and posted at the Auction.

5. **DUE DILIGENCE:** Seller and Auctioneer do not attempt to provide Bidder with all of the information Bidder may need to make an informed decision about the Auction and Property. Bidder should obtain professional advice and conduct due diligence on the Property, title commitment (available from Auctioneer and posted at the Auction), surrounding area, all information provided by Seller or Auctioneer, "Property Information Package" (available from Auctioneer, online at www.jpking.com, and posted at the Auction), public records, Terms of Auction, Auction, Sale Contract, transaction contemplated, and all circumstances, defects, facts, issues, problems, and other relevant matters (collectively "Property Issues"). All information provided by Auctioneer came from Seller and is believed to be accurate, but neither Seller nor Auctioneer guarantees, represents, or warrants its accuracy or completeness and Bidder should not rely upon it without independent inspection and verification from sources Bidder knows to be reliable. Seller and Auctioneer are not required to update any information provided or published and shall have no liability on any basis for failing to do so.

6. **DISCLAIMER:** Participation in the Auction is at Bidder's sole risk and Seller and Auctioneer, plus their agents, contractors, and employees, shall have no liability on any basis. The Property will be offered in "**AS IS, WHERE IS**" condition. To the fullest extent allowed by law, Seller and Auctioneer unconditionally disclaim any guarantee, representation, or warranty of every kind, whether expressed, implied, or statutory, whether oral or written, whether past, present, or future, with respect to all Property Issues, except as expressly provided in the Terms of Auction and the Sale Contract.

7. **DISCLOSURES:** The Property will be offered for sale and conveyed subject to all conditions, covenants, deeds, easements, reservations, restrictions, right-of-ways, title exceptions, and matters of record. Maps, depictions, and sketches in any materials related to the Property are for illustration purposes only and Seller and Auctioneer do not guarantee, represent, or warrant their accuracy or completeness.

Property Specific Disclosures: Property specific disclosures shall be attached to these Terms of Auction as referenced herein.

8. **REGISTRATION:** Any competent adult with a satisfactory photo identification who properly registers and complies with the Terms of Auction may bid. Auctioneer may refuse to register or expel any person who is disruptive, noncompliant, or previously caused a problem for Seller or Auctioneer. A registration fee in the amount of Two Thousand Five Hundred Dollars and no/100 (\$2,500.00) **PER UNIT** will be required to bid. The registration fee must be in the form of a cashier's check made payable to Bidder. Any person intending to bid on behalf of another must present Auctioneer with an executed, enforceable, recorded, and unexpired power of attorney which is subject to Auctioneer's approval. The requirements for Bidder registration may be waived by Auctioneer with respect to any Bidder, without

waiving same for any other Bidder. By registering, Bidder acknowledges receipt of the Terms of Auction and access to the Sale Contract and unconditionally and irrevocably agrees to be bound by both. **BIDDER/BUYER WILL BE LIMITED TO THE PURCHASE OF THREE (3) UNITS UNLESS PRE-APPROVED IN WRITING BY SELLER.**

9. *BUYER'S PREMIUM:* A ten percent (10.00%) buyer's premium shall be in effect for the Auction and added to the amount of the highest bid to arrive at the selling price for the Property ("total contract price").

10. *AUCTION:* Auctioneer's discretion includes, but is not limited to, the auction method, bid-calling, bid increments, and determining the buyer. The decision of Auctioneer is final regarding all matters that arise before, during, or after the Auction. Seller has reserved the liberty for its Limited Partners and Lender to bid in the Auction on the Property. If any of its LP's or Lender do bid in the Auction, they will do so on the same terms as all other bidders. If any one of them purchases the Property, they will do so under the same terms as any other Purchaser. Bidder shall not retract any bid. Bidder's purchase shall be considered a single transaction whether of the whole or a fraction of the Property. The sale of any fraction of the Property shall not be contingent upon the sale of any other portion thereof, whether purchased by the same Buyer or not.

(a) The Property is scheduled to be sold using the "*High Bidder's Choice*" method of auction as follows:

1. The first three (3) Tier 1 condominium units and the first seven (7) Tier 2 condominium units as selected by the highest bidders will be sold to the highest respective bidder for each unit.

2. The remaining units will be offered subject to Seller's acceptance of the highest bid price for each unit, or, upon Seller's designation on a unit-by-unit basis subject to Seller's acceptance of the highest bid price for each unit.

(b) The initial highest Bidder will select any one or more of the units from the Property inventory designated for round-one bidding. Once the initial highest bidder has completed this selection, if any units in the round-one Property inventory remain available, bidding will resume in a second phase of bidding for the available units. The highest Bidder in the second phase of bidding will select any one or more of the available units from the Property inventory. This process will continue into a third and subsequent phases of bidding until all units in the Property inventory have been selected by their respective highest Bidders. Prior to starting the second and any subsequent phase of bidding, Seller and Auctioneer may offer Bidders, on a first-come-first-served basis, the opportunity to select any one or more of the unselected units included in the round-one Property inventory for the amount of the last highest Bidder's bid. Once a high Bidder has selected one or more units from the Property inventory, that Bidder may NOT exchange any unit previously selected for any other unit.

11. *SALE CONTRACT:* This is a cash sale and not contingent upon any matter, including Buyer obtaining financing. Buyer shall immediately execute the Sale Contract and all related documents presented by Auctioneer to bind Bidder and Seller to the sale of the Property. Any Buyer purchasing on behalf of a business or arm of government ("artificial person") shall immediately execute the Sale Contract in both the artificial person's and buyer's names, until such time as the artificial person presents Auctioneer with acceptable, written evidence of the artificial person's good standing in its state of formation, plus written authority, in a form acceptable to Auctioneer, agreeing to be bound by the Sale Contract. The Terms of Auction are incorporated into the Sale Contract which defines the entire agreement between Seller and Buyer. The Terms of Auction complement the Sale Contract and, in the event of any conflict between them, the Sale Contract shall control in all instances. Buyer shall execute the Sale Contract and no addition, deletion, or revision shall be permitted.

12. *DEPOSIT:* Buyer shall immediately pay to the escrow/closing agent, in U. S. Dollars, an earnest money deposit of no less than ten percent (10.00%) of the total contract price of the Property ("deposit"). The \$2,500.00 registration fee will be applied to this down payment and the balance of the down payment may be made by personal or company check. If for any reason Buyer fails to timely execute the Sale Contract or pay the deposit, Seller has sole discretion, to: (a) pursue all legal and equitable remedies available against Buyer, or (b) declare Buyer's bid to be immediately forfeited, null, and void, without any requirement of notice, and immediately re-sell the Property to another buyer.

13. *CLOSING:* Closing shall be conducted at the office of Heritage Title Company, Escrow Agent, whose address is The Carillon, Suite 105, 2630 Exposition Boulevard, Austin, Texas 78703; telephone (512) 380-8900; on or before December 15, 2009 ("closing date"). The contact for Heritage Title Company is Lori Allmer.

14. *FINANCING:* Special auction financing is available to buyers of auction properties subject to credit approval. Further credit qualifications as well as other terms and conditions may apply and are subject to change. This financing will be offered to Buyers purchasing up to three (3) units.

15. *RELEASE* Bidders, Buyers, and other persons present at the Auction (collectively "Attendees") are advised that Auctioneer and its agents, contractors, employees, and/or representatives may record the Auction, related matters, and Attendees through audiotape, photography, motion pictures, and/or videotape for advertising, marketing, promotion,

publicity, record, and/or trade purposes, and in consideration of being allowed to attend the Auction, Attendees unconditionally and irrevocably agree that their images and voices may be so recorded and used by Auctioneer in all types of media without territorial, time, or use limitation, and without compensation being owed or paid to Attendees by Auctioneer or Seller.

16. ARBITRATION: Any action, claim, controversy, counterclaim, dispute, or proceeding arising out of the Property Issues and involving Seller, Bidder, Buyer, or Auctioneer, in any combination, whether controlled by federal or state law, and whether an issue of law or equity, including the determination of the scope and applicability of this agreement to arbitrate, shall be determined and resolved exclusively by final and binding arbitration, with no appeal permitted, except as provided by applicable law for the judicial review or enforcement of arbitration decisions. The arbitration shall be administered by Judicial Arbitration and Mediation Services, Inc., or its successor, and decided by a panel of three (3) independent arbitrators. Judgment on the arbitration award may be entered in any court having jurisdiction. The parties waive the right to any legal action and trial by jury. The costs of arbitration, including the fees and expenses of the arbitrators, but not including the parties' attorneys' fees, shall initially be paid equally by them. The prevailing party shall be entitled to collect from the other its full costs associated with the arbitration, including reasonable attorneys' fees. All aspects of any arbitration shall be permanently kept confidential and not disclosed in any form or manner to any entity, media, or person, and the parties shall jointly move the court entering judgment on the arbitration award to so order. Any arbitration must be commenced within two (2) years from the date when the cause of arbitration accrues or it will be forever barred. The right of arbitration shall accrue, and the two (2) year limitation period shall begin to run, on the date the breach, damage, or injury is sustained and not when the resulting damage or harm is discovered.

17. CHOICE OF LAW, JURISDICTION, AND VENUE: Any Auction matter shall be exclusively construed and governed in accordance with the laws of the State of Texas, without regard to its conflict of laws principles. The exclusive jurisdiction and venue for any controversy or claim between the parties shall be the County of Travis in the State of Texas.

18. MISCELLANEOUS: The Terms of Auction shall bind Bidders and their agents, assigns, attorneys, beneficiaries, brokers, directors, distributees, employees, executors, heirs, legatees, officers, representatives, shareholders, and successors in interest. No deletion, modification, supplement, or waiver of any provision of the Terms of Auction shall be made, except by Auctioneer's written revision or announcement at the Auction.

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PROPERTY SPECIFIC DISCLOSURES

DISCLAIMER: Seller and Auctioneer (this term to include Broker) do not, here or otherwise, attempt to provide Bidder with all of the information Bidder may need to conduct due diligence and make an informed decision about the Auction and Property. Participation in the Auction is at Bidder's sole risk and Seller and Auctioneer, plus their agents, brokers, contractors, employees, and representatives shall have no liability whatsoever on any basis. The Property will be offered and sold in "AS IS, WHERE IS" condition with all defects, faults, issues, and related problems. To the fullest extent allowed by law, Seller and Auctioneer unconditionally disclaim any guarantee, representation, or warranty of every kind, whether expressed, implied, or statutory, whether oral or written, whether past, present, or future, with respect to all issues and matters affecting, involving, or related in any way to the Auction and Property, except as expressly provided for in the *Terms of Auction* and the *Real Property Sale Contract*. The disclosures that follow are made to Bidders to assist them in performing their due diligence, but this list is not represented to be complete or correct and there may be other defects, facts, faults, issues, items, problems, and other relevant matters affecting, involving, or related in some way to the Property. Bidders should govern themselves accordingly.

Mold Disclosure: Mold is a natural occurring microbe and mold should pose no health threat unless there are concentrated high levels in the living environment. If the Purchaser is concerned or desires additional information, Purchaser should consult an appropriate professional. The Seller, Broker and the Auction Company specifically make no representations, guarantees, or warranties of any kind whatsoever regarding the present condition of the property, the future condition of the property, or anything regarding mold, mildew and the remediation process. The Seller, Broker and the Auction Company fully and unconditionally disclaim any liability whatsoever for any action, arbitration, claim, cost, damage, deficiency, expense, loss, suit, or other demand of any kind related to the property, these conditions, damages, problems, the remediation process, and all related issues.

Radon Gas: Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to personnel who are exposed to it over time. Additional information regarding radon and radon testing may be obtained from the county public health unit.

Condominium Information Statement ("CIS"): As required by Texas Statutes Section 82.153 and Section 82.154 of the Texas Uniform Condominium Act, the Property is selling subject to the terms, conditions, covenants, and provisions of the condominium documents for The Waterstone Condominium, which includes the Condominium Information Statement ("CIS"). Buyers will be required to acknowledge receipt of the CIS and attached condominium documents at the time the Sale Contract is executed.

Association Memberships: Buyer acknowledges that by purchasing a unit at The Waterstone Condominium the unit is subject to the terms and provisions of the Declaration of Waterstone Condominiums. Upon acquisition of the Unit, Buyer will be a mandatory member of the Waterstone Owners Association, established for the administration of all property made subject to the Declaration, and Buyer will be obligated to pay all assessments levied by the Association in accordance with the Declaration. The amounts of the assessments are subject to change and failure to pay such assessments could result in a lien on and the foreclosure of the Unit. Buyer acknowledges that the monthly assessments are estimates only and may increase or decrease when the actual expenses of the Association become known. Buyer will be responsible for all association fees and special assessments, if any, as required and any capital contribution or transfer fees as outlined in the association's documents. The association dues or assessments, if any, as required will be prorated through the date of closing between the Seller and the Buyer at the time of closing of the sale of the Property.

Statutory Notice of Membership in Property Owners Association Concerning Property in Waterstone Condominiums: As a purchaser of property in the residential community in which this property is located, you are obligated to be a member of a property owners' association. Restrictive covenants governing the use and occupancy of the property and a dedicatory instrument governing the establishment, maintenance, and operation of this residential community have been or will be recorded in the Real Property Records of the county in which the property is located. Copies of the restrictive covenants and dedicatory instrument may be obtained from the county clerk (after they are recorded). You are obligated to pay assessments to the property owners' association. The amount of the assessments is subject to change. Your failure to pay the assessments could result in a lien on and the foreclosure of your property. This notice is given in the spirit of Section 5.012 Texas Property Code although not required.

Located in Municipal Utility District: Waterstone Condominiums is located in Travis County Municipal Utility District No. 10, which is a taxing entity as well as a provider of utility services. MUD-10 has taxing authority separate from any other taxing authority and may, subject to voter approval, issue an unlimited amount of bonds and levy an unlimited rate of tax in payment of such bonds. At closing, Seller will provide Buyer with a Notice issued by MUD-10 with more detailed information about Buyer's obligation to MUD-10, in a form similar to the Notice attached to this Contract. Information about MUD-10 is available on a public website sponsored by the Texas Commission on Environmental Quality at <http://www3.tnrc.state.tx.us/iwud/#district>. The official address of MUD-10 is Address: 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027-7597, telephone (713) 860-6400. The District's tax collector is Assessments of the Southwest, Inc., P. O. Box 1368, Friendswood, Texas 77549-1368, telephone 281-482-0216, fax 281-482-5285, website <http://www.aswtax.com>.

Personal Property: No personal property will be conveyed with any of the Units.

Municipal Annexation: If the Unit is located outside the limits of a municipality, the Unit may now or later be included in the extraterritorial jurisdiction of a municipality and may now or later be subject to annexation by the municipality. Each municipality maintains a map that depicts its boundaries and extraterritorial jurisdiction. To determine if the Unit is located within a municipality's extraterritorial jurisdiction or is likely to be located within a municipality's extraterritorial jurisdiction, contact all municipalities located in the general proximity of the Unit for further information.

Utility Related Matters: Buyer shall be responsible, at Buyer's sole cost and expense, for all utility deposits, account transfer fees, and subsequent user incurred in connection with the delivery of utility services to the Unit. In addition, Buyer will also be responsible at Buyer's sole cost and expense for all inspection fees and other governmental fees or charges of any kind or nature associated with Buyer's ownership of the Unit after closing. Buyer understands and hereby acknowledges that Seller will retain all reimbursements from any utility service provider to the extent such reimbursements relate to improvements within the Project constructed by Seller or any predecessor developer.

Statutory Tax Districts: If the Property is situated in a utility or other statutorily created district providing water, sewer, drainage, or flood control facilities and services, Chapter 49, Texas Water Code, requires Seller to deliver and Buyer to sign the statutory notice relating to the tax rate, bonded indebtedness, or standby fee of the district prior to final execution of this contract.

Public Improvement Districts: If the Property is in a public improvement district, §5.014, Property Code, requires Seller to notify Buyer as follows: As a purchaser of this unit of real property, you are obligated to pay an assessment to a municipality or county for an improvement project undertaken by a public improvement district under Chapter 372, Local Government Code. The assessment may be due annually or in periodic installments. More information concerning the amount of the assessment and the due dates of that assessment may be obtained from the municipality or county levying the assessment. The amount of the assessments is subject to change. Your failure to pay the assessments could result in a lien on and the foreclosure of your property.

Patriot Act Representation: Seller and Purchaser each represent to the other that: (1) their property interests are not blocked by Executive Order No. 13224, 66 Fed. Reg. 49079; (2) it is not a person listed on the Specialty Designated Nationals and Blocked Persons list of the Office of Foreign Assets Control of the United States Department of the Treasury; and (3) it is not acting for or on behalf of any person on that list.