

September 1, 2005

Dear Desert Mountain Member,

Most Members of The Desert Mountain Club are aware of Parcel 19 and the right of the Deferred Equity Members to vote to exercise the option to purchase Parcel 19, together with Water Rights discussed below, (the "Option") from Desert Mountain Properties. On the other hand, Desert Mountain Properties has added approximately 300 new names to the Club's membership roles during the past twelve months, so let's take a moment to explain the history of Parcel 19 and the Water Rights to our new Members and refresh the memories of everyone else.

History

1. The Option was granted to The Desert Mountain Club's Deferred Equity Members as part of the settlement agreement with a prior board. The terms of the Option are set forth in Appendix "B" in the revised BYLAWS OF THE DESERT MOUNTAIN CLUB effective March 31, 2004. We have included Appendix "B" as Enclosure #1.
2. On or before December 31, 2005, Desert Mountain Properties will send to the Deferred Equity Members a proposed amendment to exercise the Option. The Option exercise procedure is pursuant to an amendment to the Deferred Equity Membership Plan, in order to bring the Parcel 19 land and the Water Rights within the scope of the assets to be transferred upon the Turnover of the Club, and to commit the Deferred Equity Members to an assessment or other possible financial means sufficient to cover the Option price following turnover. Members will have until February 28, 2006 to send their approving or disapproving vote to an independent vote-tallying firm. If not approved by Deferred Equity Members pursuant to the Deferred Equity Membership Plan, the Option will terminate on March 31, 2006.
3. The Option includes most of Parcel 19, which consists of approximately 97 acres of land situated in the southwest corner of Desert Mountain, and the rights to .5 million gallons per day of Non-Potable Water to be used for future golf course development or other uses consistent with the agreements in place with the City.
4. Approximately 65 acres in Parcel 19 are currently zoned for mixed-use development (including, retail, commercial, industrial and residential uses).
5. The remaining acreage (approximately 32 acres) has been committed to, or otherwise set aside for, other specific uses, none of which will produce revenue for the Club, in the event the Option is exercised:
 - a. Approximately 19 acres to the City of Scottsdale for a public park.
 - b. Approximately 8 acres to the City of Scottsdale for the existing water system.
 - c. Approximately 5 acres for an existing irrigation pond.
6. Parcel 19 is on the north side of Cave Creek Road, east of the church and on the left side of the 13th fairway on the Renegade Course. We have included a Desert Mountain Map and an existing Detailed Zoning Map as Enclosures #2 and #3.
7. The current allocated price for the land component of the Option, before any minor acreage-related price adjustments, and without interest escalation is \$14,000,000. With interest escalation at 6% compounded annually, this would be \$18,464,000 at the Turnover of the Club to the Equity Members (the Turnover is scheduled to be completed in early 2011).
8. The price of the Water Rights component of the Option, as of March 31, 2006, should be approximately \$5,653,000, which is also subject to interest escalation at 6% compounded annually, and is projected to be around \$8,300,000 at the Turnover. The Water Rights price is

subject to a few variables, in addition to the known interest escalation included in these projected numbers, so future projections reflect only estimates based on best information currently available. The price payable under the Option for the Water Rights reflects the actual cost paid by Desert Mountain Properties, plus interest commencing March 31, 2006.

9. The Option does not allow for the separation of the land from the Water Rights; both must be purchased simultaneously. Accordingly, the full Option price, today, is around \$19,653,000, and could be approximately \$26,764,000 at the Turnover. The Option price is in addition to the mortgage payable to Desert Mountain Properties for the Club Facilities upon the Turnover of the Club (capped at \$95 million).

The Option

The membership will be asked to vote on whether it wishes to exercise its Option for Parcel 19 and the Water Rights or allow the Option to lapse. Fundamentally the Option issue is to determine who will decide the eventual use of Parcel 19 and the associated water rights, Desert Mountain Properties or the membership.

To guide the membership in evaluating the Option, the board has been actively performing due diligence. We believe that there are a range of different issues that need thorough investigation including but not limited to:

- What uses would the membership like to see on Parcel 19? The property currently has mixed use zoning which could allow a variety of potential commercial uses. DMP has given your board preliminary development plans for utilizing the property for a residential village of approximately 125 homes. We have been approached by outside interests desirous of developing the property for use as a 425 unit senior residence facility and residential housing. Other parties have expressed interest in possible commercial development and still others have indicated a desire to build residential housing consistent with the type of housing we have in Desert Mountain. Other possible uses include holding the land for possible future use by the membership or for added golf or recreational facilities. These activities would only occur at the time of turnover, post turnover, or earlier by prior agreement with DMP.
- What are the current and projected values of Parcel 19 for residential or commercial use?
- What are the values or liabilities of the Water Rights? Should the membership need this water for the clubs future use? Are the Water Rights transferable and if so under what economic terms?
- What would be the impact on current and future membership issues if the membership exercises the Option?

Desert Mountain Properties has also given the Deferred Equity Members a qualified option to purchase any Deferred Equity Memberships that Desert Mountain Properties may decide it will otherwise sell to people who do not own property at Desert Mountain. Under the Club's governing documents, Desert Mountain Properties cannot decide to sell Deferred Equity Memberships to non-property owners until after the Deferred Equity Members have decided whether to exercise the Option on Parcel 19 and the Water Rights. As a result, the Deferred Equity Members will not have an opportunity to purchase any Deferred Equity Memberships when they decide to purchase, or not to purchase, Parcel 19 and the Water Rights, but the Deferred Equity Members may be given an opportunity to purchase some Deferred Equity Membership any time after March 31, 2006. The price of the membership would be 80% of the then current Membership Contribution, payable in 90 days from the time the option is exercised.

In order to acquire the necessary information the Advisory Board is engaged in the following activities.

- a. Hiring an outside 3rd party appraiser to provide an updated appraisal of the property in Parcel 19, prior to the time the Option may be exercised (the reasonable cost of which Desert Mountain Properties has agreed to pay).
- b. Hiring a water rights expert to advise and assist the Advisory Board in discussions with DMP and the City of Scottsdale to determine the actual cost and potential sales opportunities of the Water Rights if we were to exercise the Option (Desert Mountain Properties has agreed to contribute a reasonable amount toward the costs of such expert's services, to the extent they pertain to the preparation of a statement of the actual costs incurred, and future projected costs, relating to the non-potable water supply available to serve Parcel 19).
- c. Continue discussions with outside development companies to determine if they have any interest in purchasing Parcel 19 and perhaps the Water Rights from the membership and developing the property (this is an endeavor in which DMP would not participate financially).

As we move through the described activities the Advisory Board will update you with additional written communications. Once the information from the consultants provides supportable information the Advisory Board will start to hold public meetings with the membership to discuss their findings in detail.

In the meantime if you have any questions please e-mail them to your Advisory Board at AdvsryBrd@aol.com.

Sincerely,

The Desert Mountain Advisory Board

APPENDIX "B"

This Appendix "B" states certain other obligations of the Company.

B.1. Company Commitment to Terminate Temporary Tax Agreement. Prior to the Turnover, the Company shall cause the temporary obligation to make "Supplemental in Lieu Payments," as defined in paragraph 6 of that certain Preannexation Development Agreement dated December 11, 2000, between DMP and the City of Scottsdale, to terminate, if such temporary obligation has not already terminated pursuant to the terms of such Preannexation Development Agreement.

B.2. Company Agreement to Bear Certain Costs Under Water Agreement. The Company shall reimburse the Club Owner for any amounts paid by the Club Owner after the Turnover pursuant to that certain Irrigation Water Distribution System Pipeline Capacity Agreement between The City of Scottsdale, Arizona and Desert Mountain Properties Limited Partnership dated May 13, 2002 (the "Water Agreement") as the Club's share (i) of the projected or actual initial cost of designing, constructing and equipping the HVID Water Infrastructure (as defined in the Water Agreement), (ii) of the cost of storing water pursuant to Section 5.7(c) or 5.7(d) of the Water Agreement or (iii) of the cost of options to purchase Long-Term Storage Credits, as contemplated by Section 6.4 of the Water Agreement. The foregoing notwithstanding, the Company shall not be obligated to reimburse any costs incurred by the Club Owner after the Turnover relating to the Water Rights, as defined in Section B.5 of this Appendix "B," if the Members exercise the Parcel 19 Option, as defined in such Section.

B.3. Club Option to Purchase Desert Mountain Sales Office. The Company owns a building (and other associated real property) at the main entrance to Desert Mountain, subject to a lease of a portion of the property to The Desert Mountain Master Association. An affiliate of the Company as of Effective Date conducts a brokerage business in this building. The Company will retain ownership of this building (and other associated real property) until the Turnover, and the Company will not allow any person or entity, other than an affiliate of the Company, to conduct a brokerage business in this building at any time prior to the Turnover or during the term of the option described in the following sentence. As part of the Turnover, the Company shall grant to the Equity Member Entity an option, for one year after the Turnover, to acquire (i) the building (and other associated real property), subject to a perpetual or other long-term right in favor of The Desert Mountain Master Association to use a portion of such building and associated property as a guard house and for related purposes, and (ii) any transferable interests held by the Company or any of its affiliates in any resale brokerage business conducted in such building upon closing of the option, if the option is exercised. The option price shall be the fair market value of (i) the building (and other associated real property), subject to the rights of The Desert Mountain Master Association, and (ii) any resale brokerage business then conducted by the Company or any of its affiliates in the building, as determined by an appraisal prepared by an independent appraiser selected by the Company, and the option price shall be payable in cash at the closing, in the event the option is exercised. In the event the option is exercised and the purchase is closed, neither the Company nor any of its affiliates shall thereafter engage in the resale brokerage business as to homes or home sites in Desert Mountain.

B.4. Club Option to Purchase Company's Interest in Office Building Venture. The Company holds an interest in the limited liability company that owns the "Fairway" office building located at 10550 East Desert Hills Drive in Scottsdale (the "Fairway Office Venture"). As part of the Turnover, the Company shall grant the Equity Member Entity an option for one year to acquire for \$1 both (i) the Company's entire interest as of May 22, 2002 in the Fairway Office Venture and (ii) the Company's entire interest in any leases or subleases related to the "Fairway" office building as of the closing date, if the option is exercised, conditioned only upon (i) the transferee assuming all of the Company's obligations relating to the Fairway Office Venture and all of the Company's assigned obligations (including rental payment obligations) under any such assigned leases and subleases, if the option is exercised, and (ii) the transferee obtaining the consents to such transfer and assignments from any other participant in the Fairway Office Venture prior to the closing, if the option is exercised. If the option is exercised, the Company's interest in the Fairway Office Venture, and in any leases or subleases, shall be assigned free and clear of any liens (other than the mortgage, if any, permitted under the Plan). At the closing, the Fairway Office Venture shall have no debt (other than such mortgage, if any), and the Fairway office building shall be free and clear of any liens (other than such mortgage, if any), but the transfers will be made with the Fairway office building in its "as is" condition on the date of such transfer and assignments.

B.5. Parcel 19 and Associated Water Supply. At the request of the Advisory Board, the Company hereby grants the Deferred Equity Members an option to purchase Parcel 19 at Desert Mountain, and the associated water supply described below (the "Parcel 19 Option"), on the terms stated in this Section B.5.

B.5.1 Description of Parcel 19. Parcel 19 includes approximately 97.3 gross acres, situated in the southwest corner of Desert Mountain. Approximately 5.3 acres of the site are used today for various purposes, including the primary golf course irrigation pond and a fire and emergency medical station. Another 18.8 acres has been committed since the early 1980's to the City of Scottsdale for a public park and related uses. Additional portions of Parcel 19, expected to total approximately 7.9 acres, will be (a) conveyed to the City for use in connection with the IWDS (the water system which serves Outlaw and the Club's other existing courses) and for other City purposes, which may include a future potable water treatment facility or (b) set aside as natural area open space in connection with the IWDS. Together, these committed uses are expected to absorb about 32 acres of Parcel 19, leaving about 65.3 acres available for other potential uses.

Parcel 19 is currently zoned predominantly for commercial development. In order to use Parcel 19 for golf or residential purposes (beyond the approximately 10 residential units permitted under current zoning), Parcel 19 would need to be rezoned. The City has not committed to rezone Parcel 19, and the Company does not plan, as of the Effective Date, to seek any such rezoning in the near future. In the event that the Club members were to exercise the option and purchase Parcel 19, the Club would need to rezone Parcel 19, if the Club decided to use Parcel 19 for purposes other than those permitted under the zoning in place on the Effective Date.

Parcel 19 is too small to serve as the site of a championship eighteen-hole golf course. The parcel (net of the already committed areas) is large enough, however, to serve as the site of a first class practice facility or possibly a nine-hole course or executive eighteen-hole course.

B.5.2 Description of Non-Potable Water Available to Serve Parcel 19. The Company also owns, as an uncommitted non-Club asset, .5 million gallons per day of water delivery capacity in the IWDS and an associated water allotment of up to 275 acre-feet per year, as provided in the Water Agreement (this pipeline capacity and water allotment are referred to hereinafter collectively as the "Water Rights"). The IWDS is being constructed to allow the water allotment included in the Water Rights to be delivered to and used on Parcel 19, if the Club elects to exercise the Parcel 19 Option.

B.5.3 Current Value of Parcel 19 and the Water Rights. In December of 2002, the Advisory Board's appraiser valued Parcel 19, net of the areas expected to be set aside for the uses described above, at about \$14,750,000; which is more than 20% less than a similar appraisal completed in 2001.

As of the Effective Date, the Company expects the costs incurred to acquire and develop the Water Rights to total about \$7,500,000, but the actual costs could be more or less than this estimate. Because some potentially variable acquisition and development costs will continue to be payable after the Turnover, the final aggregate acquisition and development cost of the Water Rights will remain somewhat uncertain at the Turnover. The Company will provide the Advisory Board with an appropriate audit of these costs for review by the Advisory Board.

B.5.4 Option Price is Less Than Current Value, and Not Payable Until Turnover. Subject to adjustment as provided in the next paragraph, the option price will equal the sum of (a) \$14,000,000 and (b) the actual costs incurred by the Company in acquiring and developing the Water Rights.

Before the end of 2004, the IWDS improvements on Parcel 19 will be completed and the land on which those improvements are placed will be conveyed to the City of Scottsdale. In the event that more than 7.9 acres are conveyed to the City in connection with the IWDS, the option price will be reduced by \$310,000 per acre for each additional acre or part thereof which is dedicated to the City for IWDS purposes. In the event that less than 7.9 acres are conveyed to the City in connection with the IWDS, the option price will be increased by \$310,000 per acre for the additional acreage which is available for use for non-IWDS purposes.

If the option is exercised, the option price will bear interest, at 6% per annum, compounded annually, from March 31, 2006 until the option price is paid. For purposes of determining the amount on which interest is accruing, any costs incurred by the Company in acquiring or developing the Water Rights after the date on which the option is exercised shall be added to the option price as of the end of the month in which such costs are paid. The option price, with interest, would be payable through an assessment of Deferred Equity Members when the option property is transferred to the Equity Member Entity. The option price will not be included in the turnover mortgage contemplated by the Plan.

B.5.5 Mechanism for Exercising Option and Paying Option Price, if the Option is Exercised. On or before December 31, 2005, the Company will prepare and send to the Deferred Equity Members a proposed amendment to the Plan. That amendment will become effective only if approved by a vote of the Club's Deferred Equity Members, as provided in the Plan. Members will have until February 28, 2006 to send their approving or disapproving vote to an independent vote-tallying firm.

The amendment will provide that the Equity Member Entity is to purchase Parcel 19, subject to the commitments described above, and the Water Rights, for an amount determined as provided above. The amendment will provide that, if the option is exercised, the option property will be transferred to the Equity Member Entity (upon payment of the purchase price) on the Turnover Date and the Club Owner will thereafter be responsible for any remaining costs of acquiring and developing the Water Rights.

If the Plan amendment is approved, the funds needed to pay the option price will be raised by an assessment of the Club's Deferred Equity Members (as between Club and Golf Members, the assessments will be proportionate to their respective Membership Contributions as of the assessment date). The option price would not be added to the amount of any turnover mortgage.

If the Deferred Equity Members do not vote in favor of the Plan amendment, the option will terminate on March 31, 2006.

B.5.6 Management of Parcel 19 During the Option Term and Until Transfer, if the Option is Exercised. During the term of the Parcel 19 Option, and until the option property is transferred if the Parcel 19 Option is exercised, the Company will continue to have the authority to work with the City of Scottsdale on the location and design of the various IWDS and City uses to which portions of Parcel 19 have been committed, which may entail relocating the acreage committed to use for a park and related City uses. The Company will continue to consult the Advisory Board on these matters. During the term of the option, the Company and the Advisory Board will have the authority to modify or terminate the Parcel 19 Option.

B.6. Member Option to Purchase Certain Deferred Equity Memberships. At the request of the Advisory Board, the Company agrees, notwithstanding Section 7.3 of the Bylaws to which this Appendix is attached, not to sell any Deferred Equity Memberships owned by the Company to any person that does not own a home or home site at Desert Mountain until the two conditions in the following subsections B.6.1 and B.6.2 have each been satisfied:

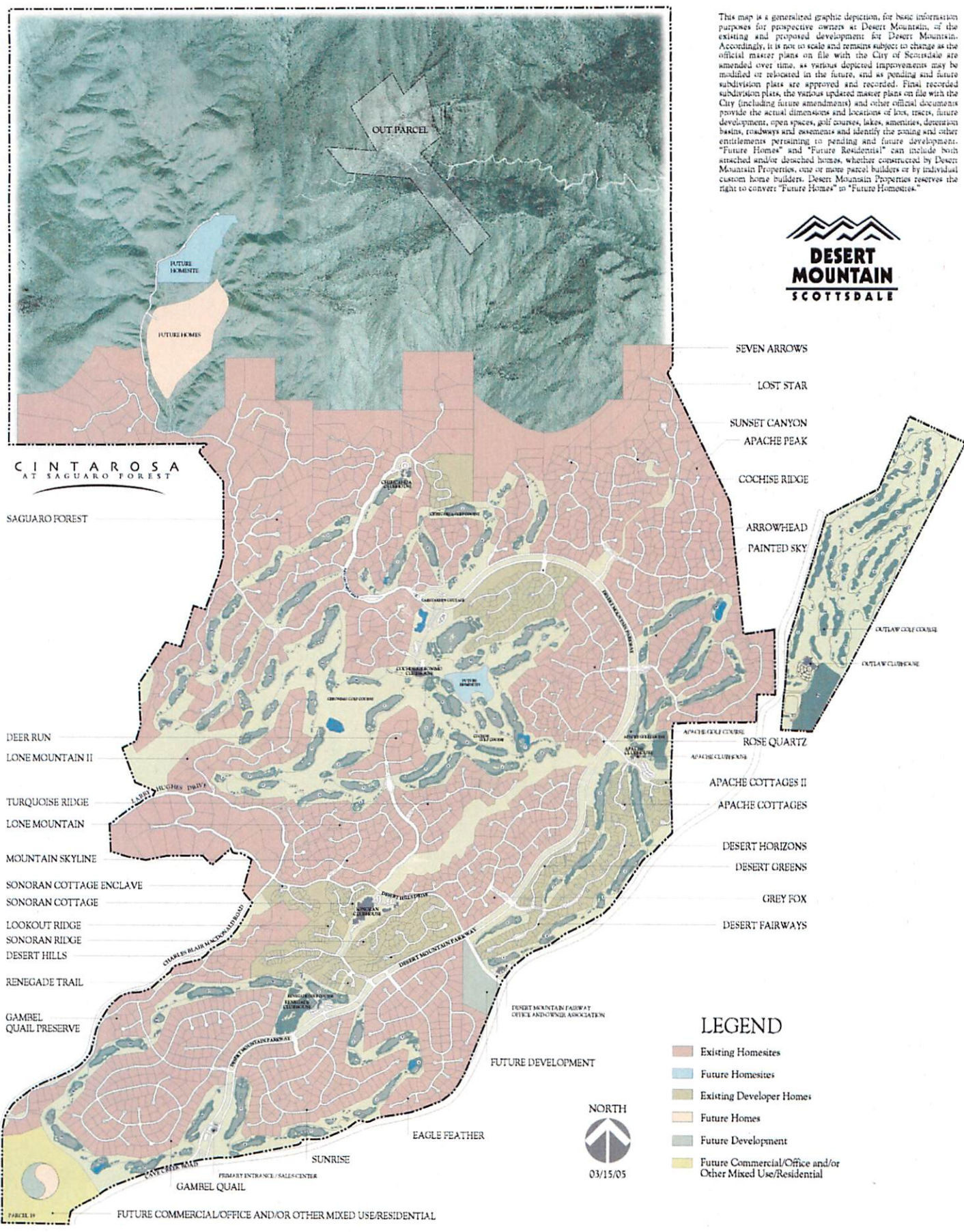
B.6.1 First Condition. Any one of the following has occurred:

- (a) The Parcel 19 Option has expired without being exercised;
- (b) The membership has voted to exercise the Parcel 19 Option; or
- (c) The Advisory Board and the Company have agreed to an early termination of the Parcel 19 Option.

B.6.2 Second Condition. After the first condition has been satisfied, the Company has given the Deferred Equity Members (or the Club Owner, if a membership purchase option is granted after the Turnover) an option to purchase any Deferred Equity Memberships, owned by the Company, which the Company intends (in the event the membership purchase option is not exercised) to offer to persons which do not own a Desert Mountain home or home site. The option price in each case shall be equal to 80% of the Membership Contributions (as of the date on which such membership purchase option is granted) for the Deferred Equity Memberships which are subject to the membership purchase option, and the option price in each case shall be payable in cash within 90 days after the membership purchase option is exercised by the Deferred Equity Members (or by the Club Owner, if a membership purchase option is granted after the Turnover), if the membership purchase option is exercised.

In the event that the Company grants a membership purchase option in compliance with the requirements stated in this Section B.6, and the option is not exercised, the Company shall be free to sell the Deferred Equity Memberships which were subject to the membership purchase option to persons who do not own Desert Mountain homes or home sites.

This map is a generalized graphic depiction, for basic information purposes for prospective owners at Desert Mountain, of the existing and proposed development for Desert Mountain. Accordingly, it is not to scale and remains subject to change as the official master plans on file with the City of Scottsdale are amended over time, as various depicted improvements may be modified or relocated in the future, and as pending and future subdivision plats, the various updated master plans on file with the City (including future amendments) and other official documents provide the actual dimensions and locations of lots, tracts, future development, open spaces, golf courses, lakes, amenities, detention basins, roadways and easements and identify the zoning and other entitlements pertaining to pending and future development. "Future Homes" and "Future Residential" can include both attached and/or detached homes, whether constructed by Desert Mountain Properties, one or more parcel builders or by individual custom home builders. Desert Mountain Properties reserves the right to convert "Future Homes" to "Future Homesites."



CINTAROSA
AT SAGUARDO FOREST

SAGUARDO FOREST

DEER RUN

LONE MOUNTAIN II

TURQUOISE RIDGE

LONE MOUNTAIN

MOUNTAIN SKYLINE

SONORAN COTTAGE ENCLAVE

SONORAN COTTAGE

LOOKOUT RIDGE

SONORAN RIDGE

DESERT HILLS

RENEGADE TRAIL

GAMBEL QUAIL PRESERVE

GAMBEL QUAIL

FUTURE COMMERCIAL/OFFICE AND/OR OTHER MIXED USE/RESIDENTIAL

PARCEL 19

DESERT MOUNTAIN FAIRWAY OFFICIAL AND/OR RESIDENTIAL ASSOCIATION

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

DESERT MOUNTAIN FAIRWAY

SEVEN ARROWS

LOST STAR

SUNSET CANYON

APACHE PEAK

COCHISE RIDGE

ARROWHEAD

PAINTED SKY

OUTLAW GOLF COURSE

OUTLAW CLUBHOUSE

APACHE GOLF COURSE

APACHE CLUBHOUSE

ROSE QUARTZ

APACHE COTTAGES II

APACHE COTTAGES

DESERT HORIZONS

DESERT GREENS

GREY FOX

DESERT FAIRWAYS

LEGEND

- Existing Homesites
- Future Homesites
- Existing Developer Homes
- Future Homes
- Future Development
- Future Commercial/Office and/or Other Mixed Use/Residential

NORTH



03/15/05

CONCEPTUAL DEVELOPMENT PLAN

EXISTING ZONING

- GP'97 General Plan Amendment - Parcel 19C
 - 85,868,87 Z-86 #2 Zoning Application - Parcels 19C, 19D, 19E & 19F
 - UP'97 Use Permit - Municipal Use/Park - Parcel 19E
 - UP'97 Use Permit - Gasoline Service Station with Automated Car Wash - Portion of Parcel 19D
 - UP'97 Use Permit - Residential Health Care Facility - Parcel 19C
- Submitted Date: July 31, 1997

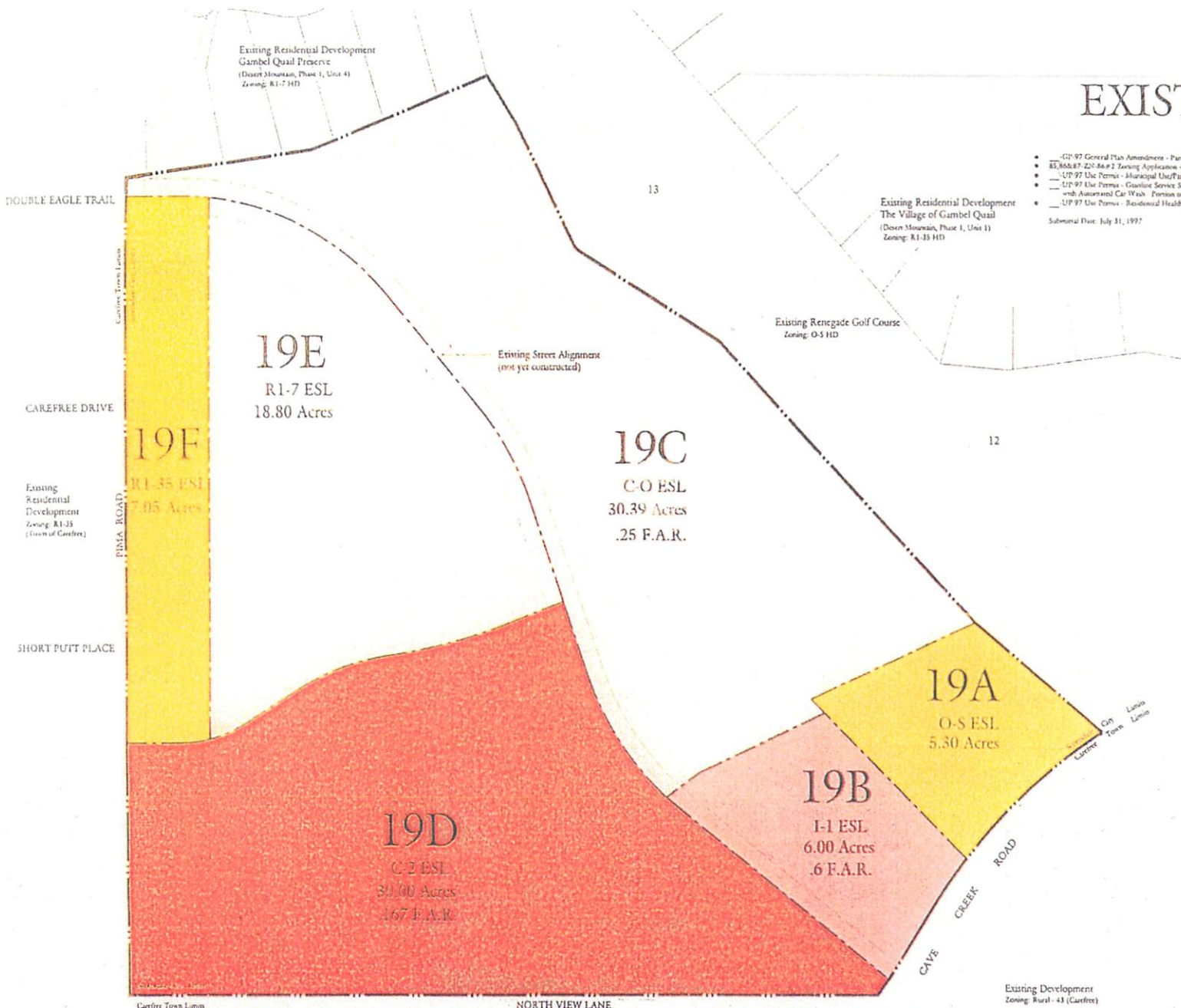
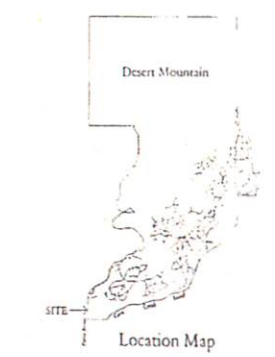


Note:

Existing zoning as per zoning cases # 85-Z-86, #86-Z-86, #87-Z-86

DEVELOPMENT INTENSITY

PARCEL	EXISTING ZONING	PLANNED AREA METRO USES PER ACRE	ACRES	MAX. HOUSEHOLD FREE-RESIDENTIAL UNITS
19A	O-S ESL	-	5.30	-
19B	I-1 ESL	.6 F.A.R.	6.00	156,816 S.F.
19C	C-O ESL	25 F.A.R.	30.39	330,947 S.F.
19D	C-2 ESL	.167 F.A.R.	30.00	200,000 S.F.
19E	R1-7 ESL	-	18.80	-
19F	R1-35 ESL	1.04 U/A	7.05	7 UNITS
TOTAL			97.54	687,763 S.F. & 7 UNITS



Sky Ranch Airport
(Town of Carefree)

Existing Development
Catholic Church
Zoning: Rural-43

Existing Development
Velvet Shadows
Zoning: Rural-43

Lot 127
Velvet Shadows
Zoning: Rural-43
(Owned by
Desert Mountain)

Lot 126
Velvet Shadows
Zoning: Rural-43
(Owned by
Desert Mountain)

Existing Development
Zoning: Rural-43 (Carefree)



General Commercial

The C-2 zone is a general commercial designation for the City of Scottsdale. The C-2 zone is intended to provide for the intensive commercial uses necessary to the proper development of the community.

Industrial Park (I-1)

The I-1 district is intended to provide space for manufacturing, processing, research and development, and complementary wholesale, warehouse, and office operations. This district permits a broad range of uses to take place within buildings or behind solid masonry walls and promotes the development of an attractive, landscaped industrial park.

Commercial Office (C-O)

This district is intended to provide an environment desirable for and conducive to development of office and related uses adjacent to the central business district or other major commercial cores. In addition, certain other kinds of uses are permitted under conditions and standards, which assure their compatibility with a general concentration of office use as well as with the medium and high-density residential districts, which will often adjoin the C-O district. This district will generally serve to provide a transition from, and occur between, the commercial core and residential districts.

Single-Family Residential (R1-35)

This district is intended to promote and preserve residential development. The minimum lot size, although less than one (1) acre, still results in a low density of population. The principal land use is single-family dwellings and uses incidental or accessory thereto, together with required recreational, religious and educational facilities.

Developed Open Space (OS)

This district is intended to provide for land uses in areas generally subject to periodic inundation. It is further intended to provide for land uses in areas, which have been set aside to serve recreational functions or to provide open space areas.

Hillside District (HD)

The purpose of this district is to conserve mountains and protect their surrounding hillsides. The hillside district is primarily intended to preserve the natural character and aesthetic value of mountains.