

THE DESERT MOUNTAIN CLUB ADVISORY BOARD

October 12, 2005

Dear Fellow Desert Mountain Member:

After more than one year of review, discussion and due diligence, the Advisory Board, by a majority vote of 6 to 3, has determined that it is in the best interests of The Desert Mountain Club's membership to exercise the option to purchase Parcel 19 and the associated water rights. The Board considered a multitude of scenarios that included the possibility that Desert Mountain Properties attempt to rezone the land and develop it with approximately 125 homes. On balance, after full review, the Board concluded that the membership should control the future use of Parcel 19. We believe that the Deferred Equity Members should own the additional water rights, which are an integral part of the option, because of its benefit for our current uses and insurance for our future needs. This Board's decision is bolstered by our analysis of the current and projected value of the property and the water rights, which we anticipate to be substantially in excess of the option price.

Future Uses and/or Needs:

The Board believes the best use of Parcel 19 can be determined by the membership as the community matures between now and turnover, and thereafter. Whether the land is used for an additional golf or practice facility, rezoned and developed as a residential portion of Desert Mountain, sold to a third party with extensive deed restrictions, or just left vacant, the Board does not presently believe there is an immediate need or desire by the membership to develop the land. It will be a priority of your Advisory Board to explore all future options and present them to the membership before making any decisions relating to the final disposition of Parcel 19.

Real Estate:

The allocated price for the land component of Parcel 19 is approximately \$13,400,000. Pursuant to the Bylaws and our request, Desert Mountain Properties (DMP) facilitated and paid for a land appraisal from an independent appraisal company, Colliers International. The results of that appraisal, dated October 7, 2005, were submitted to Desert Mountain Properties as follows: *If the property were sold, as currently zoned, to a single buyer, the minimal value is \$23,500,000. If sold as presently zoned in a separate transaction to individual buyers, the value is appraised at \$35,100,000.* If the option is exercised, then it becomes part of the club's assets at turnover. Between now and turnover Desert Mountain Properties (DMP) is entitled by contract to receive interest at the rate of 6% compounded annually which will bring the cost of the land to \$18,464,000 on December 31, 2010. Should turnover occur sooner, then the price would be reduced accordingly. If current and historical trends continue then the land could appreciate at or above the 6% interest rate therefore making the interest component of the deal moot. The Board has also received significant interest by qualified developers to purchase the property at prices equal to and substantially greater than the appraised value. Under the Bylaws, Parcel 19 cannot be transferred until turnover, nor do we believe the Board can contract with a third party until turnover. Therefore it should be understood the current offers from outside developers are only indications of potential value and not a guarantee.

Water:

We presently have 6 golf courses to operate with 5 and ½ shares of water capacity. Four shares of water are under a RWDS (Reclaimed Water Distribution System) contract and 1½ shares are under an IWDS (Irrigation Water Distribution System) contract. The water rights component of the option is to acquire an additional ½ share of IWDS water capacity. The rule of thumb is that it takes one share of water (1,000,000 gallons per day) to operate a golf course annually. If we acquire the water rights associated with the Parcel 19 option, the membership will have 6 shares of water for its 6 golf courses. For reasons that will be explained in a more detailed presentation to the membership, the Board believes that a share of IWDS water is of greater value to our community and our golf courses than RWDS water.

Moreover, we live in a desert. Water is a precious commodity today and likely will become even more precious in the future. The ½ share of water provides the membership with about 9% more water and partial insurance against possible future water shortages and resulting reduced allocations by the City of Scottsdale. Furthermore, the ½ share of water, if deemed unnecessary in the future, could be turned into the City and resold to another City-approved golf course owner. However, if the option is not exercised now, there is no guarantee the water share will be available to the membership at turnover.

The purchase price of the water rights is \$5,672,000. The Deferred Equity Members will be obligated to pick up future costs of the water project as well as pay DMP 6% interest until turnover on December 31, 2010. Thus, the total cost of the water rights at turnover will be approximately \$8,694,000. Under contractual formula with the City of Scottsdale the water rights can be turned in to the City, and then resold to qualifying third parties, whose golf courses could feasibly connect to the IWDS system. Should the Deferred Equity Members decline the option but wish to acquire additional IWDS water capacity following turnover, if it is still available from The City of Scottsdale then the projected price of the water share could be approximately \$12,475,000.

Costs of Acquisition:

The current Bylaws state the cost to purchase Parcel 19 and the associated water rights will commit the Deferred Equity Members to an assessment. Should this be the only financial mechanism available then the projected assessment on December 31, 2010 would be approximately \$11,000 per member. Any assessment could significantly be reduced and possibly eliminated through mortgaging the property as part of the overall turnover, and or through the sale of the Parcel 19 immediately after turnover, should that be the will of the Deferred Equity Members. Your Board is currently exploring future financing alternatives for both Parcel 19 and the turnover.

Voting:

The option to purchase Parcel 19 and the associated water rights is extremely important to the membership and the community. This is the first vote that relates to the Deferred Equity Members' future ownership and control of the Club. On or before December 31, 2005, Desert Mountain Properties will be sending the Deferred Equity Members a proposed amendment to the Deferred Equity Membership Plan to exercise the option to purchase Parcel 19 and the associated water rights. To exercise the option to purchase Parcel 19, we will need more than 50% of all eligible Deferred Equity Members to vote "YES." This means that approximately 1,100

Deferred Equity Members will need to cast a "YES" vote prior to February 28, 2006. A failure to vote will constitute a "NO" vote. Regardless of how you vote we feel that it is imperative that all Deferred Equity Members vote and ask the membership to help the Board to ensure all Deferred Equity Members vote.

Future Meetings:

The Board will be having Town Hall type membership meetings related to the option to purchase Parcel 19. The meetings are scheduled for Friday, October 21, 2005 and Thursday, November 3, 2005. Both meetings will be held at the Cochise Geronimo Clubhouse, Sunset Terrace, at 3 PM. Additional meetings should be held in late November and December. In the meantime, the Board will be posting more detailed information related to the transaction on the Desert Mountain website in the near future. The Board also welcomes your questions or comments relating to Parcel 19. Please feel free to contact individual board members or e-mail the Board at AdvsryBrd@aol.com.

Sincerely,

The Desert Mountain Club Advisory Board