

DESERT MOUNTAIN

October 24, 2006

Re: Vote on Option to Purchase Deferred Equity Memberships

Dear Desert Mountain Deferred Equity Member:

Based on Desert Mountain Properties' remaining development plans and the Deferred Equity Members exercising their option to purchase Parcel 19, we will have more Deferred Equity Golf and Club Memberships than needed for future buyers of homes and homesites.

The Club's long-term membership plan, as set forth in the Club's governing documents, contemplates that the Club will have just under 396 Deferred Equity Golf Memberships and just under 49 Deferred Equity Club Memberships per course. These membership levels were established in 2002, after extended dialogue with the member-elected Advisory Board and many other Members. We continue to believe that they establish a sound balance between ready access to Club facilities and a sustainable base for maintaining the Club at reasonable cost to its members.

In order to attain those membership levels, we will need to offer a limited number of our Deferred Equity Golf Memberships and Deferred Equity Club Memberships to those who do not own homes or homesites at Desert Mountain. At the request of the Advisory Board, we modified the Club Bylaws in 2004 to provide that DMP would not offer any of its Deferred Equity Memberships to those who do not own homes or homesites at Desert Mountain until after the Deferred Equity Members voted on the Parcel 19 option, which occurred earlier this year. As amended in 2004, the Club Bylaws also provide that, before DMP offered its memberships to non-property owners, DMP would first offer the Club's existing Deferred Equity Members an option to buy such memberships at a reduced price. The pertinent provision in the Club Bylaws, Section B.6, reads as follows:

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 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.

By this letter, Desert Mountain Properties is giving the Club's Deferred Equity Members an option to purchase 155 Deferred Equity Golf Memberships and 260 Deferred Equity Club Memberships.

The Membership Contribution for a Deferred Equity Golf Membership is \$325,000, and the Membership Contribution for a Deferred Equity Club Membership is \$100,000. As provided in Section B.6 of the Club Bylaws, the option price per Deferred Equity Golf Membership is thus \$260,000, and the option price per Deferred Equity Club Membership is \$80,000. This results in an aggregate option price of \$61,100,000.

If the option is exercised, the foregoing aggregate option price will be payable ninety days thereafter, from the proceeds of an assessment of the Club's Deferred Equity Members. Based on the number of Deferred Equity Memberships issued as of October 15, 2006, the resulting assessment would be about \$29,258 for each issued Deferred Equity Golf Membership and \$9,048 for each issued Deferred Equity Club Membership, payable in each case by the owner of such membership.

Enclosed is a ballot to vote for or against exercise of this option, as well as a stamped, pre-addressed envelope, which may be used to send a completed ballot to the independent firm retained to tally the vote. The ballot form is also available for downloading from <http://members.desertmountain.com/>.

Each Deferred Equity Member in good standing is eligible to complete and submit a ballot, in accordance with the instructions set forth in the ballot form, to vote for or against exercise of the option. The process and deadline for voting, and the process for tallying the votes, are described in the ballot. For the purchase option to be exercised, it must be approved by a majority of the votes eligible to be cast by Deferred Equity Members.

Your Advisory Board has approved the enclosed ballot form and they will be sending you a separate letter with their recommendation regarding this option.

DMP has decided not to express an opinion as to whether it is in the best interests of the Club for the option to be exercised. Having agreed to grant such options before we issue our Deferred Equity Memberships to those who do not own homes or homesites at Desert Mountain, we think we should leave the matter for the Club's Deferred Equity Members to discuss and decide.

The deadline for voting in accordance with the instructions and conditions set forth in the ballot is December 15, 2006. The ballot counting firm will advise us and the Advisory Board on December 22, 2006, if the option has or has not been exercised. If it has been exercised, December 22, 2006 will be treated as the exercise date, with the result that the ensuing assessments would be due on or before March 23, 2007.

In the future, DMP may also decide to offer additional memberships (that may become available) owned by DMP, either Deferred Equity Golf Memberships or Deferred Equity Club Memberships, to those who do not own homes or homesites at Desert Mountain. In each such case, DMP will again first give the Club's Deferred Equity Members an option to purchase the pertinent DMP memberships, as provided in Section B.6 of the Club Bylaws.

We look forward to your participation in this important vote. If you have any questions about the membership purchase option or the ballot, please feel free to contact members of your Advisory Board or us. Thank you.

Sincerely,

Jon Underwood
President, Desert Mountain Properties

Robert E. Jones, II
Senior Vice President of Operations,
Desert Mountain Properties

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