



October 29, 2010

Dear Desert Mountain Deferred Equity Member,

For those of you who were unable to attend or listen in on the Advisory Board Town Hall presentations of Monday, October 18th or did not read the October 21st e-mail sent to all members, we are pleased to announce that a tentative purchase agreement has been reached with the owners of Desert Mountain Properties (DMP). This agreement is in lieu of the turnover described in the Deferred Equity Membership Plan scheduled for March 1, 2011. This agreement stipulates the purchase by the newly formed member club (the Equity Member Entity or 'EME') of essentially all assets contained within The Desert Mountain Club, with the exception of the remaining DMP inventory of roughly thirty-eight properties and their attached memberships.

The tentative agreement was memorialized in a Letter of Intent that was executed by both parties on Sunday, October 17th and is subject to approval by a majority vote of the Deferred Equity Members of the club. The parties agreed to an all cash purchase price of \$73.5 million for all referenced assets and a closing date scheduled for December 31, 2010. The impact per equity golf member will be an increase in monthly dues to a range of \$1,175 - \$1,200 with an estimated assessment of \$16,500. For equity club members, the estimated assessment will be \$5,077 and an increase in monthly dues to a range of \$705 - \$720.

The details of this transaction were presented in a Power Point slide presentation to the membership at the October 18th Town Hall meetings. For your reference, the slide presentation is posted on the both the Desert Mountain and Advisory Board web sites together with the audio recording from each session. Both are accessible by logging in with your Desert Mountain user name and password. The attached enclosures also provide you with important information regarding these developments.

This is the first of several hard-copy mailings you will be receiving from us in the coming weeks leading up to your receipt of a hard-copy voting package in mid-November which will include a ballot that is to be completed and returned without delay. Approval of the transaction by a majority vote will result in the assessment referenced above. The voting package will provide you with more specific information regarding, among other details, the precise amount of the assessment, payment instructions and the exact dates when receipt of these funds will be required. You will also be reminded more than once that in order to finalize completion and realize the benefits of this transaction all member assessment funds must be received by no later than mid-December.

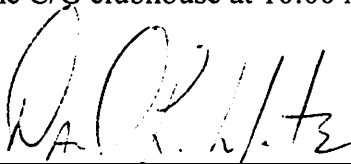
Desert Mountain Properties

10550 East Desert Hills Drive, Scottsdale, Arizona 85262-3438 480/595-4000, 800/323-2780, Fax 480/595-4001
www.desertmountain.com

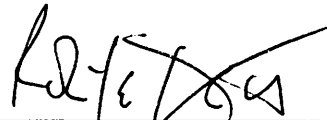
You may also be receiving phone calls from fellow club members and village representatives, e-mails and other miscellaneous communications for the purpose of making sure that every member is aware of and fully educated about the significance and merits of this transaction.

The Advisory Board has approved the terms contained in the Letter of Intent subject to, among other things, the successful execution of a Purchase & Sales Agreement with the owner. Finally, based on the overwhelming benefits of this transaction as compared to the mandatory scheduled turnover, the Advisory Board is recommending an affirmative vote in order to proceed with the transition of Desert Mountain from a developer owned to member owned club.

If you are in residence during the month of November please plan on attending the next in a series of Town Hall meetings that will be held on Monday, November 15th at the Sunset Terrace of the C/G clubhouse at 10:00 AM and 4:00 PM.



David L. White, President
DM Member Advisory Board



Robert E. Jones, II, Co-President
Desert Mountain Properties

enclosures

**Summary Review of Scheduled Turnover
(as defined in the Deferred Equity Membership Plan & Club Bylaws)**

Scheduled Effective Date: March 1, 2011

Purchase Price Calculation for Scheduled Turnover of Club Facilities to Members:

- Eight (8) times average annual net operational cash flow from club operations (2008 – 2010)
- Not to exceed an amount necessary to achieve a debt service coverage ratio of 1.3 or greater
- Developer is required to provide a commercially reasonable mortgage

Club Facilities Include:

- Six Golf Courses including water supply of 4 shares RWDS & 1.5 shares IWDS
- Clubhouses/Restaurants
- Pools, Fitness Center, Tennis Facility

Additional Required Purchases Not Included or Unspecified in Scheduled Turnover Documents

- Inventory & Supplies (to be purchased at book value)
- Furniture, Fixtures & Equipment
- Name, Trademarks, Logos
- Statuary & Artwork
- IT Systems (Computer Hardware & Software Licenses)

Additional Purchases subject to Option Exercise by a vote of the membership

- Main Gate/Real Estate Business
- Fairway Office (50% ownership of joint venture and lease rights)
- Parcel 19 & 0.5 shares of IWDS water (previously exercised)

Major Issues Requiring Resolution in the Scheduled Turnover

- Is the Club in First Class Condition as defined in the governing documents?
- Purchase Price Calculation Controversy (\$38mm vs. recent upward revision to \$46mm)
- Unsecured funding by DMP of future IWDS infrastructure costs
- Collection of Parcel 19 Assessment
- DMP Responsibility for Membership Surrender List
- Marketing and Pricing of Unsold Golf & Club Memberships
- DMP Responsibility for Member Dues Repayment, Surrender Benefits & Unused Credits
- Encumbrance of Club Bylaws for new member owned club

DMP Projected Cost of Scheduled Turnover

• Club Facilities Calculation	\$46 mm
• Parcel 19 Assessment	\$26.37 mm
• Additional Purchase of Supplies & Inventory, FF&E, IT Equipment, Names/Logos/Trademarks	\$ 5 mm
	<hr/>
	\$77.37 mm

Global Cash Purchase/Asset Sale

Effective Date: January 1, 2011

Assets Included:

- Six Golf Courses
- 4 Shares RWDS Water Supply
- 2 Shares IWDS Water Supply
- Clubhouses & Restaurants
- Pools, Fitness Center, Tennis Facility
- Inventory & Supplies
- Furniture, Fixtures, Equipment (FF&E)
- Statuary & Artwork
- DM Name/Trademarks/Logos
- IT Systems (Computer Hardware & Software)
- Main Gate Building
- DM Real Estate Business
- Fairway Office (50% ownership of J.V.)
- 219 Golf Memberships
- 261 Club Memberships
- Additional 0.67 shares of IWDS water
- Northern Properties (2,750 acres)
- Parcel 1 (343 acres)
- Parcel 10 (14 acres)
- Parcel 19 (85 net acres)
- Lot 127 adjoining P19 (~ 1 acre)
- Lot 128 adjoining P19 (~ 1 acre)
- Lot 369 Ranch 'mega-lot' (33 acres)

Purchase Price: \$73.5 mm

Assumed Liabilities

- Membership Surrender List (forecasted to be up to \$ 2.5 mm)
- Member Dues Repayment Program, Surrender Benefits & Unused Credits (included in above)
- Future IWDS infrastructure costs or alternative water supply (unknown at this time; however, not anticipated to occur within at least 3 - 5 years and ranges from best case scenario of \$0 to worst scenario of approximately \$20 mm)

The Economics of a Global Purchase Asset Sale:

- \$73.5 mm total cash purchase
- \$ 1.0 mm member contribution repayment
- \$ 2.0 mm working capital
- \$76.5 mm total

- \$76.5 mm total
- \$43.5 mm lender financing
- \$33.0 mm member assessment

Resulting cost per member:

	<u>Assessment (est.)</u>	<u>Monthly Dues (projected)</u>
Equity Golf member:	\$16,500	\$1,175 - \$1,200
Equity Club member:	\$ 5,077	\$705 - \$720

**Comparison of Current Monthly Dues
At Similar First-Class Private Golf Clubs
In the Southwestern United States**

➤ The Vintage Club – Indian Wells	\$2,483
➤ Big Horn – Palm Desert	\$2,450
➤ The Reserve – Indian Wells	\$2,333
➤ The Quarry – LaQuinta	\$1,550
➤ Estancia – Scottsdale	\$1,250
➤ Silverleaf – Scottsdale	\$1,250
➤ <i>Desert Mountain – Scottsdale (projected)</i>	<i>\$1,175 - \$1,200</i>
➤ Mirabel - Scottsdale	\$1,150
➤ Desert Highlands – Scottsdale	\$1,007
➤ DC Ranch – Scottsdale	\$ 950

**An Economic Comparison
Global Asset Purchase vs. Mandatory Scheduled Turnover
(Equity Golf Member Illustration only)**

<u>Global Asset Purchase (mm)</u>		<u>Scheduled Turnover (mm)</u>	
Purchase Price	\$ 73.5	Club Facilities	\$ 46.0
Misc. (working capital, etc.)	<u>\$ 3.0</u>	Supplies, FFE, etc	\$ 5.0
		Parcel 19	\$ 26.37
		Misc. (working capital, etc.)	<u>\$ 3.0</u>
	Total \$ 76.5		Total \$ 80.37

Assessment (\$ 33 mm)
\$16,500 per member (est.)

Assessment (\$ 34.37 mm)
\$17,185 per member (est.) *

Projected Monthly Dues
\$ 1,175 - \$ 1,200

Projected Monthly Dues
\$ 1,175 - \$ 1,200 *

*Likely higher based on 'commercially reasonable' mortgage provided by developer

Global Asset Purchase – A Summary of Benefits

- Substantially increased basket of assets vs. scheduled turnover
- Two additional months of revenue during high-season (January-February)
- Lower Overall Purchase Price
- Lower assessment vs. scheduled turnover (\$ 16,500 vs. \$ 17,185)
- Conveys control of all critical elements to the membership
(*governance, operations & economics*)
- Provides stability to the Desert Mountain community
- Eliminates perceived 'cloud' of uncertainty hanging over Desert Mountain in the real estate marketplace
- Eliminates almost certain post-turnover litigation with developer over open issues
- Makes economic sense

Global Asset Purchase – Status

- Advisory Board Executive Committee recommended acceptance of the negotiated global transaction by the full Board
- Advisory Board motion passed on October 8th:
 - ✓ Accepts negotiated global transaction upon condition of acceptable Letter of Intent and Purchase & Sales Agreement
 - ✓ Announces to membership on October 18th Town Hall
 - ✓ Recommends approval by majority vote of Deferred Equity Golf & Club members

Next Steps

- Finalize lender financing (private placement or alternative commercial lending)
- Negotiate & execute Purchase & Sales Agreement
- Member Education Campaign
- Distribute Voting Package (ballots) to Membership
- Member Vote, Assessment & Collection of Funds (subject to affirmative majority vote)
- Finalizing terms of assessment financing for up to 300 members
- Close on December 31, 2010