



November 8, 2010

Dear Deferred Equity Member,

In our last letter dated October 29, we advised you of the Global Transaction details recently negotiated with the owners of Desert Mountain Properties (DMP). This purchase agreement is in lieu of the Mandatory Turnover scheduled for March 1, 2011 that is described in your Deferred Equity Membership Plan (the "Existing Plan").

On **November 15** we will be sending you, via United States Postal Service, a voting package that includes the following:

- READ THIS FIRST document
- Ballot
- Summary of the Club Bylaws for the newly formed, **member-owned** Desert Mountain Club, Inc.
- Conversion Agreement that converts your Deferred Equity Membership to an Equity Membership
- Comparison of the Advisory Board negotiated Global Transaction vs. the Mandatory Scheduled Turnover
- Purchase & Sales Agreement
- Complete copy of Club Bylaws
- Amended Membership Plan

In order to expedite the mailing, conserve paper and reduce costs, the Purchase & Sales Agreement, Club Bylaws and the Amended Membership Plan will be included on a Compact Disc (CD) as a .pdf file. In addition, these documents will be posted on the Desert Mountain and Advisory Board web sites for your review.

The vote we are requesting you to cast will be the most important thing you do as a Desert Mountain member since you decided to purchase property/build a home here and become a member of the club.

If you toss the Ballot to the side and do not cast a vote or decide to vote NO, please understand that life at Desert Mountain will not go on as usual. In fact, if we do not achieve a 51% majority vote to accept this transaction and are unable to collect the full amount of the member assessment, we will revert to the more onerous, less inclusive and more expensive scheduled turnover.

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

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In addition, there is a likelihood that we will be forced to enter into costly and lengthy litigation with DMP if the global transaction is not approved, as it is clear that resolution of the very significant open issues we have outstanding will be difficult, if not impossible, to reconcile. The cost of any litigation could further increase the operating costs of the Club which will be reflected in the Clubs future monthly dues structure and/or additional assessments to balance the annual budget as required in the Club Bylaws.

Enclosed with this letter are a series of FAQ's addressing many of the questions that you may have regarding what is about to happen, when it's going to happen, what you should do and what will happen if you don't.

Because of the extremely tight time frame in which this transaction must be completed, we request that you submit the resulting assessment payment together with your Ballot and signed Conversion Agreement. Your assessment payment will be held in escrow and will be returned to you immediately if we do not receive the required number of YES votes. Assessment payments made by credit card will not be processed until the required 51% affirmative vote is achieved and certified.

Once voting begins next week you will be able to cast your Ballot in one of the following ways:

- Return your completed Ballot, signed Conversion Agreement and assessment payment of \$16,500 (Deferred Equity Golf Members) or \$5,077 (Deferred Equity Club Members) in the pre-addressed, postage-paid envelope enclosed in the voting package. If you wish to pay by credit card, the payment will be \$17,000 (Golf) or \$5,230 (Club), respectively, for this convenience fee credit card accommodation. A form will be included in the voting package for your credit card information.
- Insert your completed Ballot, signed Conversion Agreement and assessment payment in the self-addressed envelope that was included in your voting package. Seal the envelope and drop it in the lock box located in the Fairway Office lobby, Monday – Friday between the hours of 9:00 a.m. and 4:00 p.m.
- You will be able to cast a Ballot, submit your signed Conversion Agreement and pay your assessment in person, subject to certification of your membership status. A polling station will be set up near the Cochise/Geronimo Sunset Terrace between the hours of 1:00 p.m. and 5:00 p.m. on the following days: November 18, 19, 23, 26 and December 2, 3, 8, 9. In addition, one or more Advisory Board members will be present to answer any questions that you may have.
- You may also receive a phone call from a fellow member asking if your completed Ballot, signed Conversion Agreement and assessment payment is on its way back to us or if you intend to vote, if you have not already done so. These volunteer members will be prepared to answer basic questions about the turnover as well as the voting process, and will ask if you need a replacement Ballot in the event you have misplaced it or your original voting package was sent to an alternate address.

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Regardless of the manner in which you cast your vote, we request that you do so without delay, but in any event, no later than Friday, December 17.

This is a milestone in the history of our Club. Your support and participation in this vote is crucial to the long-term prosperity of Desert Mountain as well as in preserving the value of your Desert Mountain membership and property.

Regards,



David L. White
President
DM Member Advisory Board



Robert E. Jones II
Co-President
Desert Mountain Properties

Frequently Asked Questions

Q: What Is About To Happen?

A: As a result of the negotiated global transaction between the Advisory Board and the owners of Desert Mountain Properties (DMP), the membership will be given the opportunity to vote on accepting or rejecting the purchase of essentially all assets contained within Desert Mountain, except for thirty-eight (38) existing properties and thirty-eight (38) memberships reserved for these properties.

Q: How much is the purchase price?

A: The negotiated price to be paid at Closing for the package of assets is an all cash amount of \$73.5 mm.

Q: What is included in the purchase price?

A: The following assets are included in the Global Transaction scheduled to close on 12/31/2010:

- 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)
- 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)
(all acreage noted above is approximate)

Q: How does this compare to the mandatory scheduled turnover price?

A: The following assets are included in the mandatory turnover alternatively scheduled on 3/1/2011:

- Six Golf Courses
- 4 Shares RWDS Water Supply
- 2 Shares IWDS Water Supply
- Clubhouses & Restaurants
- Pools, Fitness Center, Tennis Facility

The calculated price for these assets as set forth in the existing Membership Plan has been established by DMP at \$46 mm. This amount would be financed by a "commercially reasonable" mortgage arranged for by DMP. In addition, we would be required to purchase Parcel 19 for approximately \$26.4 mm through an assessment of the membership. We would also be required to purchase existing inventory & supplies at book value and other miscellaneous personal property totaling approximately \$4 mm to \$5 mm that would NOT be included in the mortgage and separately assessed. The grand total of these components is approximately \$77.4 mm, nearly \$4 mm more than the \$73.5 mm for the Global Transaction. In addition to the cash payment purchase price of \$73.5 mm, the Club is also assuming certain other obligations mentioned below in a following FAQ.

Q: When will all this happen?

A: The negotiated Global Transaction is scheduled to close on or before December 31, 2010 while the mandatory scheduled turnover would close no later than March 1, 2011. The negotiated Global Transaction gives the new member-owned club the benefit of two additional months of revenue at the height of the busy season.

Q: What will I be asked to vote for?

A: You will be asked to cast a single YES or NO vote on whether or not to accept the following: a) the Global Transaction negotiated by the Advisory Board as described above, b) the Purchase & Sales Agreement for the transaction c) the amended and restated Club Bylaws and d) the Amended Membership Plan. As specified in the current club documents, a Deferred Equity Golf Member (DEGM) vote will count twice and a Deferred Equity Club Member (DECM) vote will count as a single vote.

Q: If the vote to approve the Global Transaction is successful what will that mean to me personally?

A: If approved, the transaction will trigger an assessment of \$16,500 for Deferred Equity Golf Members (\$17,000 if paying by credit card) and \$5,077 for Deferred Equity Club Members (\$5,230 if paying by credit card). Because of the extremely short time frame in which we must close the transaction, we are requesting that you include payment of your assessment with your completed Ballot. The assessment will be deposited in an escrow account and if the transaction is not approved by the required 51% affirmative vote of the membership, your funds will be returned to you immediately. Assessment payments made by credit card will not be processed until the 51% affirmative vote is achieved and certified. In addition to the assessment, the monthly dues are projected to rise to between \$1,175 and \$1,200 for DEGM's and \$705 - \$720 for DECM's after January 1, 2011.

Q: If the vote to approve the Global Transaction is NOT successful what will that mean to me personally?

A: The mandatory scheduled turnover will proceed with the assessment for Parcel 19 of \$13,185 for DEGM's and \$4,057 for DECM's. In addition, the new Club will require a supplemental assessment for working capital and for supplies/inventory and miscellaneous personal property not included in the list of "Club Facilities" specified in the Deferred Equity Membership Plan. This would result in a total assessment per member of approximately \$17,185 for DEGM's and \$5,288 for DECM's payable prior to the turnover date of March 1, 2011. In addition to the assessment, the monthly dues are projected to also rise to between \$1,175 and \$1,200 after March 1, 2011; however, that dues level may be higher because it is subject to whatever "commercially reasonable mortgage" is obtained on our behalf by DMP. Lastly, as long as DMP continues to hold unissued memberships and property, they will have certain powers over any bylaw changes and our ability to establish an economically justifiable member contribution (i.e. initiation fee), which is currently set at \$325,000 for DEGM's and \$100,000 for DECM's.

Q: When will I be given the opportunity to vote?

A: A voting package will be sent to you on **November 15** via United States Postal Service. You will be able to cast your Ballot and return your signed Conversion Agreement and assessment payment in one of the following ways:

- Return your completed Ballot, signed Conversion Agreement and assessment payment of \$16,500 (Deferred Equity Golf Members) or \$5,077 (Deferred Equity Club Members) in the pre-addressed, postage-paid envelope enclosed in the voting package. Payment may be made by check or money order. Credit card payments will be accepted; however, your payment using a credit card will be \$17,000 (Golf) or \$5,230 (Club), respectively.
- Insert your completed Ballot, signed Conversion Agreement and assessment payment in the self-addressed envelope that was included in your voting package. Seal the envelope and drop it in the lock box located in the Fairway Office lobby, Monday – Friday between the hours of 9:00 a.m. and 4:00 p.m.
- You will be able to cast a Ballot, submit your signed Conversion Agreement and pay your assessment in person, subject to certification of your membership status. A polling station will be set up near the Cochise/Geronimo Sunset Terrace between the hours of 1:00 p.m. and 5:00 p.m. on the following days: November 18, 19, 23, 26 and December 2, 3, 8, 9. In addition, one or more Advisory Board members will be present to answer any questions that you may have.
- You may also receive a phone call from a fellow member asking if your completed ballot, signed Conversion Agreement and assessment payment is on its way back to us or ask if you intend to vote, if you have not already done so. These volunteer members will be prepared to answer basic questions about the turnover as well as the voting process, and will ask if you need a replacement Ballot in the event you have misplaced it or your original voting package was sent to an alternate address.

Q: What if I'm not sure and decide not to vote?

A: Not submitting a vote is the same as voting NO. In order for this transaction to be approved, 51% of all eligible Deferred Equity Members must vote YES. If we do not receive the required 51% majority of affirmative votes then the mandatory scheduled turnover described above will proceed and the mandatory assessment under the scheduled turnover will be due.

Q: What are the alternatives?

A: There are only two possible results. A majority YES vote will result in the newly formed member-owned club acquiring essentially all remaining DMP assets and a per member assessment of \$16,500 (Golf) or \$5,077 (Club). Dues will rise to \$1,175 - \$1,200 for equity golf members and \$705 - \$720 for equity club members. A failed vote will result in our member owned club acquiring the scheduled turnover assets on March 1, 2011 and a per member assessment of approximately \$17,185 (DEGM) and \$5,288 (DECM). Dues will rise to \$1,175 - \$1,200 but may be higher subject to the mortgage obtained by DMP for the new Club. In addition, the likelihood of litigation would require additional funding and undoubtedly result in further assessments of the membership.

Q: Why must there be both a substantial increase in the monthly dues and an assessment?

A: The monthly dues that we have all been paying for the last several years have been limited by a number of factors. First and foremost, through a settlement of prior litigation, DMP has been restricted from raising dues in any one year to no more than the greater of 5% or the increase in the Consumer Price Index. This has resulted in the cost of operations exceeding revenues for the club (an operating loss) by more than seven figures during the past several years. This shortfall has been subsidized by DMP through sales of real estate and transfer fees.

In developing the 2011 budget, the Advisory Board has taken the position that the club needs to operate on a zero based budget with reasonable reserves to minimize the need for additional assessments to cover operating shortfalls. Our philosophy is that the unpredictable amount of transfer fees generated from year to year cannot be relied on to contribute to the cost of operations and must be used for capital improvements, debt reduction and miscellaneous reserves such as the possible water liabilities that we may incur in the future.

Finally, purchase of the club from DMP will result in a total cash price of \$73.5 mm that will be paid for through a combination of an assessment and financing of \$43.5 mm. In contrast, according to the Existing Plan (i.e. mandatory scheduled turnover), the purchase price calculated by DMP for just the Club Facilities itself is \$46 mm. A mortgage on the Club Facilities would be obtained by DMP and paid from the Club's gross revenues, including dues and transfer fees.

As mentioned above, the Advisory Board is obtaining financing in the amount of \$43.5 mm for the Global Transaction, which is below the \$46 mm mortgage

debt that would be incurred under the Existing Plan or mandatory scheduled turnover. We believe that the resulting dues level is comparable and competitive with the dues at other high-end clubs in the Valley and the Southwestern United States whose members expect outstanding service and amenities. The following represent the most recent monthly dues at selected clubs with which you may be familiar:

➤ 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
➤ Desert Mountain – Scottsdale (projected)	\$1,175 - \$1,200 (projected)
➤ Mirabel – Scottsdale	\$1,150
➤ Desert Highlands	\$1,007
➤ DC Ranch – Scottsdale	\$ 950

Q: If every Deferred Equity Member simply wrote a check to cover their portion of the purchase price and additional miscellaneous expenses instead of the Club having to finance a mortgage, then the Club wouldn't have any debt service and our dues wouldn't have to increase, correct?

A: The Advisory Board has heard from a number of members who have expressed their preference for this alternative. Unfortunately, every member is not in a position to do this and dues would still increase because of other factors required to operate the Club.

However, to accommodate members who prefer to pay their full portion of the purchase price and miscellaneous expenses to reduce the Club mortgage amount, we are implementing a dues prepayment program. This program will provide Deferred Equity Golf members the alternative choice of submitting a payment of \$38,250 (or \$39,400 if paying by credit card) in lieu of the required lesser assessment amount, together with your completed Ballot and signed Conversion Agreement. This will result in the monthly dues, for Equity Golf Members who choose this option, to be reduced by **\$200.00** for a period of ten years beginning January 1, 2011. If members who choose this option sell their properties and resign from the club within ten years, the dues prepayment credit will transfer to the new member/owner for the remainder of the ten year term.

Deferred Equity Club members will also have the option to reduce their dues under the same terms and conditions. Simply submit a payment of \$11,770 (or \$12,123 if paying by credit card) together with your completed Ballot and signed Conversion Agreement. This will result in the monthly dues of Equity Club Members, who choose this option, to be reduced by **\$61.50** for a period of ten years.

Q: What happens if the global transaction is approved by the membership and, for whatever reason, I do not pay my assessment of \$16,500 (DEGM) or \$5,077 (DECM)?

A: An assessment, regardless of whether it is for the Global Transaction or the mandatory scheduled turnover, is an obligation of your membership to the Desert Mountain Club in the same way you are responsible for paying your monthly dues and/or club charges. If you do not pay the assessment when due, you will be subject to late charges, suspension of your membership and all club privileges, as well as any and all other remedies available under the Club Bylaws and at law.

Q: What if I do not have enough disposable cash at the present time and cannot pay the full equity member assessment of \$16,500?

A: We recognize that not every member will be able to immediately free up enough cash to pay the full assessment amount, particularly those with multiple memberships. Consequently, DMP has agreed to three annual installment payments for the first three hundred (300) members who elect this option on an as needed and first come, first serve basis. The annual payments per membership would be \$7,500 due now, \$6,500 due in December, 2011 and \$6,500 due in December, 2012. The Advisory Board is currently exploring other options that would result in more favorable terms; however, there is no assurance that this will occur.

Q: When is payment due?

A: Because of the extremely short time frame in which to process the vote and collect the member assessments necessary to close the transaction, it is critical that your assessment be paid by check, money order or credit card authorization and returned together with your completed Ballot and signed Conversion Agreement as soon as possible. If, for some reason, your assessment payment cannot be included with your completed Ballot we do not want you to delay casting your vote. In any event, your \$16,500 (Golf) or \$5,077 (Club) assessment payment (\$17,000 or \$5,230, respectively, if paying by credit card) is due immediately but, if submitted separately from your vote, **no later than December 17**. Payment should be mailed to the accounting firm certifying the vote count at the following address: **Mansperger, Patterson, McMullin, PLC, 1222 E Baseline Road, Suite 200, Tempe, AZ 85283**. If you decide to do this, a fellow member will contact you to verify that you returned only your completed Ballot and remind you that your assessment payment is still outstanding. As previously stated, your assessment will be deposited in an escrow account and immediately returned to you in the event a 51% affirmative vote is not obtained. Credit card payments will not be processed until a 51% affirmative vote is achieved and certified.

Q: Is there anything else I should know before I vote YES for the Global Transaction?

A: Yes, in order to achieve a successful outcome there were, as in any negotiation, a number of gives and takes. As previously outlined, there are substantial assets that would not be included in the mandatory scheduled turnover. There are also four additional points that you should be aware of:

1. The Club is assuming the liability, arising post-turnover, of the membership surrender list, surrender payment benefits, membership dues repayment program and unused member credits. On the plus side, we receive 219 unissued golf membership that, based upon our surveys, should have a retail value of somewhere between \$100,000 and \$150,000 per membership. We also are now able to move forward in designing an equitable program to clear the surrender list in a reasonable amount of time.
2. We are accepting the Club Facilities in their 'As Is Condition' which avoids the impasse as to whether or not they are in first class condition.
3. By voting YES, the Club and the Members are agreeing to release DMP from any claims concerning the first-class condition of the Assets, claims regarding DMP's turnover obligations under the Existing Plan and Bylaws (mandatory scheduled turnover) and other certain obligations arising from operations conducted after the Closing Date, as provided in the Purchase & Sales Agreement. However, after the Closing Date, DMP remains liable for all "Seller Continuing Obligations" as set forth in the Purchase & Sales Agreement.
4. On the Closing Date, the Club will assume the obligations of DMP with respect to the contingent future liability of the water supply infrastructure costs that are unknown at this time due to various contingent factors, but could possibly range from \$10 - \$20 mm. However, as discussed at length during the October 18th Town Hall meetings, it is likely that these obligations may be greatly reduced through a number of initiatives, including a Valley wide comprehensive plan now being discussed by a number of municipalities. Lastly, given the scarcity of water and the abundance of golf courses in the Valley, we believe the additional water rights included in the Global Transaction will ultimately be a valuable asset as opposed to a liability. Superimposed on this judgment is the fact that DMP's obligations for the water liability under the mandatory scheduled turnover would be unsecured and years into the future when DMP may be long gone and no longer exists as a viable entity. Under the Global Transaction, the additional assets being acquired, beyond those included in the scheduled turnover, provide the Club with collateral to compensate for this potential liability.

Q: I'm still not sure, what should I do?

A: The worst thing you can do is not vote. A non-vote is a NO vote. The Advisory Board agreed to this transaction because it is in the best interests of the membership. If you believe the Global Transaction is an economically attractive, more robust package and less onerous than the mandatory scheduled turnover then vote YES. If you are not sure, we would respectfully request that you review the facts and follow the recommendation of your member-elected Advisory Board by also voting YES.

Q: One more thing.....I made one or more voluntary contributions to the Advisory Board within the last several years. When will I get my money back?

A: As you were previously informed by the Advisory Board, members who made contributions as a result of past AB fundraising campaigns will be reimbursed after turnover when the new member-owned club Governing Board takes up the AB's recommendation for it to assume these obligations arising from past fundraising efforts. It is contemplated that members who contributed a total of \$5,000 or less will be issued a club credit on their billing statements unless they specifically request a check. Members who contributed more than \$5,000 will be issued a check. We anticipate completing the issuance of credits and checks no later than the second Quarter, 2011. All reimbursements will be made at the same time so that no preference is given to any one member over another.

Q: If I have questions that you haven't addressed where can I find answers?

A: You may submit your questions via e-mail to advisoryboard@desertmt.com or dmab@gmail.com and we will respond as quickly as possible. Alternatively, you may call 480-595-4110 or 1-800-757-1198 and leave a message and an Advisory Board member will return your call. In addition, Advisory Board members will be available at the C/G Clubhouse Sunset Terrace during the on-property voting hours from 1:00 p.m. – 5:00 p.m. on November 18, 19, 23, 26 and December 2, 3, 8 and 9.