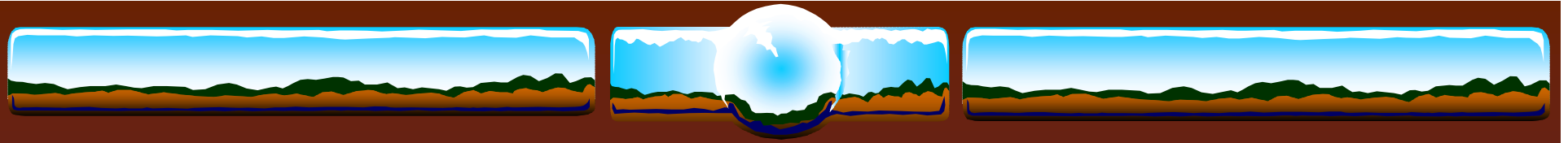


Desert Mountain  
Member Advisory Board

Town Hall Meeting

December 10, 2010



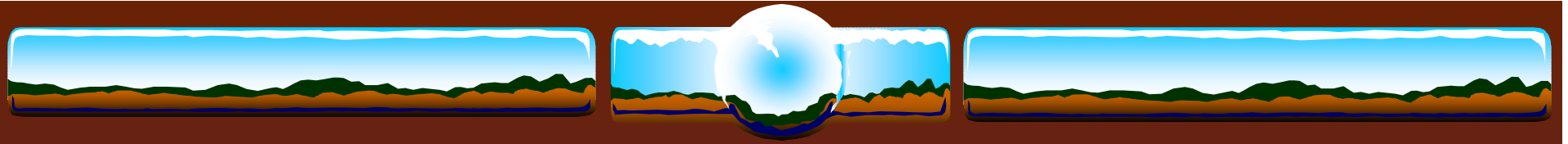
# Introduction

David White



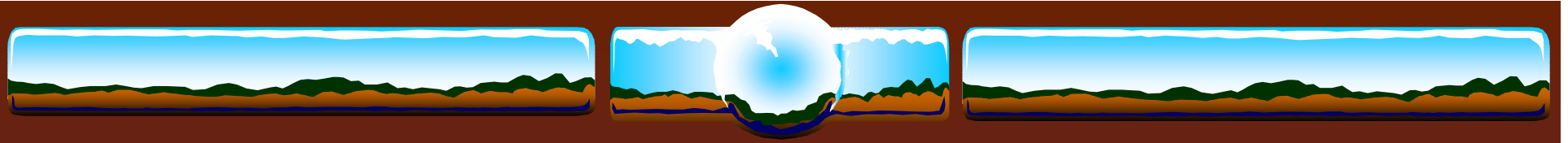
# Agenda

- Voting Status/Process – Rick Harrington
- Membership Pricing – David White
- Surrender List – Harold Eastridge
- Employee Retention – Bob Jones
- Non-equity Member Status – David White
- Bylaw Process – David White



# Voting Status & Process

Presenter:  
Rick Harrington



**THANK**

**YOU!**





Status of Vote Count  
as of 12/09/2010 (p.m.)

➤ Total Eligible Votes	4,032	
➤ Affirmative Votes Required	2,057	(51 %)
➤ Total Votes Cast	1,925	
✓ YES	1,913	(99.4 %)
✓ NO	12	(0.6 %)
➤ Remaining YES Votes Needed (73 ballots [146 votes] pending as of Friday AM)	144	



## Status of Assessment Collection as of 12/09/2010 (p.m.)

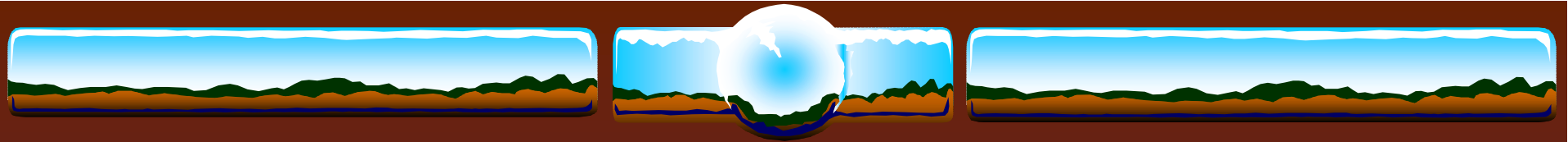
2,004 DEGM's	x	\$16,500	=	\$ 33,066,000
24 DECM's	x	\$ 5,077	=	\$ <u>147,233</u>
<b>Total Assessment Amt.</b>			<b>=</b>	<b>\$ 33,213,233</b>

Members Electing Financing Option = 102

Members Electing Incentive Payment = 103

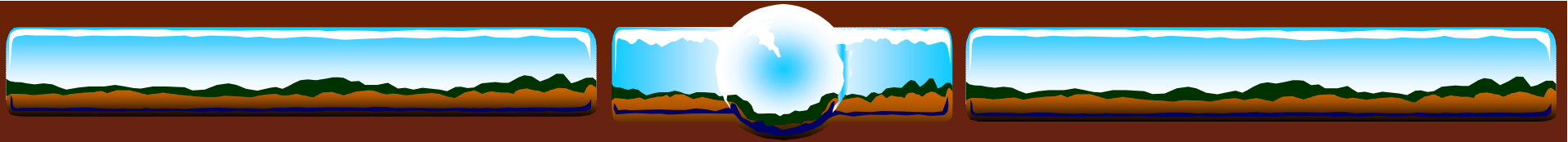
**Amount Collected to Date = \$ 16,898,000**





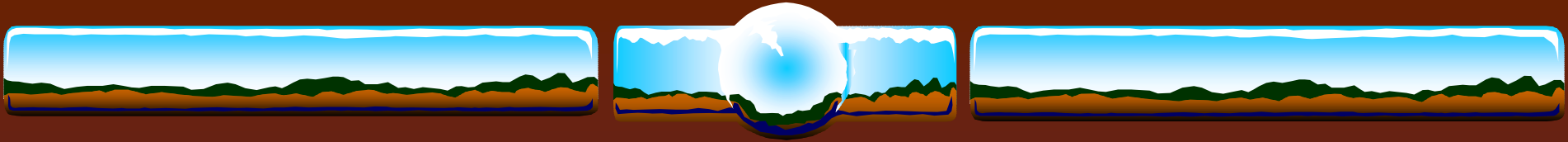
## Voting Process

- Votes will continue to be collected at Fairway Office, C/G Clubhouse (member services) or by mail through December 20<sup>th</sup>
- Member volunteers will continue to call fellow members who have not yet cast a ballot
- Members who have not paid will be contacted regarding required assessment payment



## Voting Process cont'd.

- A non-vote is a NO vote
- A non-vote or NO vote still requires payment of the assessment amount
- Non-payment of the assessment will subject member to collection effort, suspension of club privileges and all remedies available at law

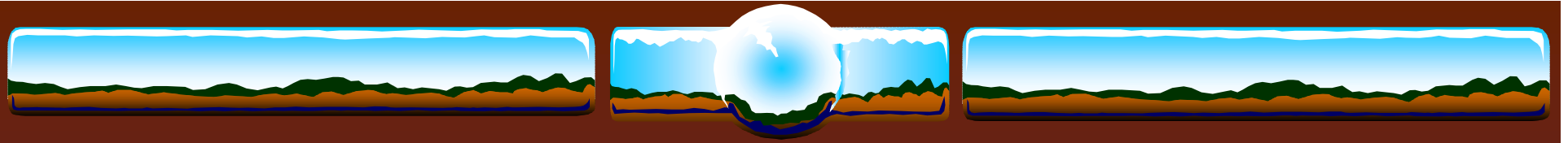


**VOTEYES**



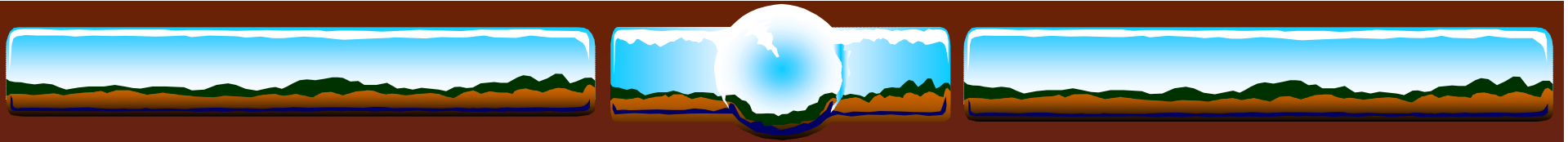
**SECURE YOUR FUTURE**

**AND PAY YOUR ASSESSMENT!**



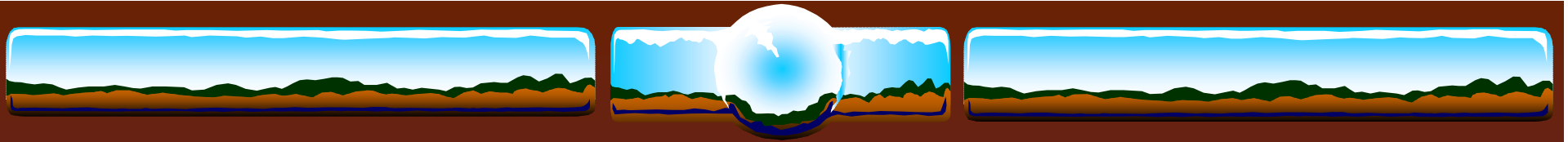
# Membership Pricing

Presenter:  
David White



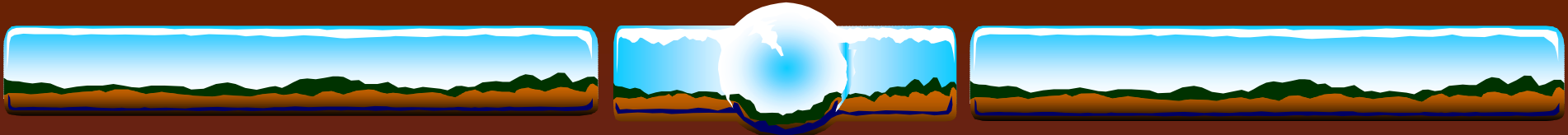
## 2011 Membership Contribution Contemplated Effective Date of January 1, 2011

- Equity Golf Membership - \$140,000
- Equity Club Membership - \$ 40,000



## Price to Value Relationship

- Comparisons Across High End Golf Communities: National vs. Local
- What is the price to value relationship of Desert Mountain versus our competitors?

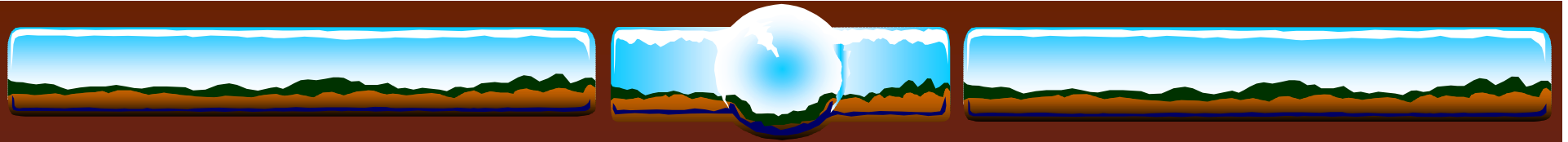


## Attractiveness Model Major National Competitive Communities

←
 Attractiveness Attributes (subjective and approximate)
 →
 Pricing

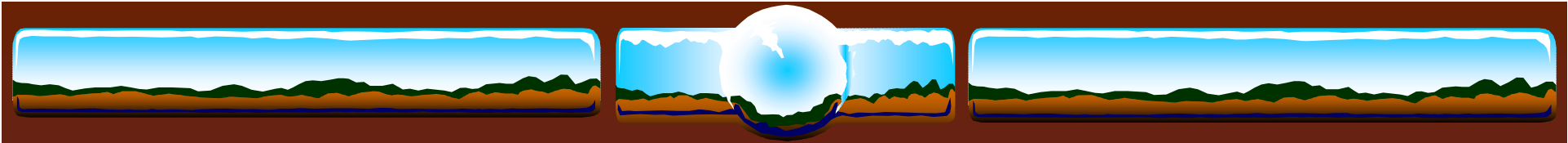
	CLUB	Reputation /Quality	Scope Of Amenities	Golf Intensity	Attractive Real Estate	Attractiveness Score	Entry Price
<span style="color: green;">●</span>	Desert Mountain Past	5	3	5	5	18	\$325
<span style="color: green;">●</span>	Desert Mountain Future	5	5	5	5	20	140
<span style="color: blue;">●</span>	Boca West	5	5	5	3	18	70
<span style="color: purple;">●</span>	Ocean Reef	5	5	4	5	19	215
<span style="color: black;">●</span>	Addison Reserve	5	3	3	4	15	115
<span style="color: magenta;">●</span>	Vintage Club	5	3	4	5	17	350
<span style="color: cyan;">●</span>	Big Horn	5	3	4	4	16	350
<span style="color: salmon;">●</span>	The Reserve Indian Wells	5	3	3	4	15	250
<span style="color: brown;">●</span>	Sante Lucia	5	3	3	5	16	150
<span style="color: red;">●</span>	Pronghorn Bend OR	5	3	4	4	16	0 !
<span style="color: grey;">●</span>	Big Canyon	5	4	4	5	18	225

Score 1-5      Low to High



**Price to Value Relationship  
for Membership Fee of  
Top Residential Golf Communities  
(National)**

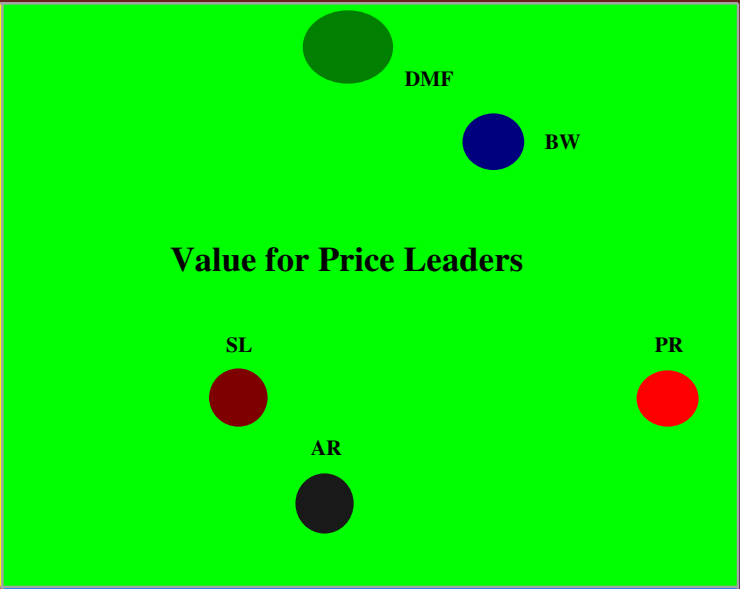
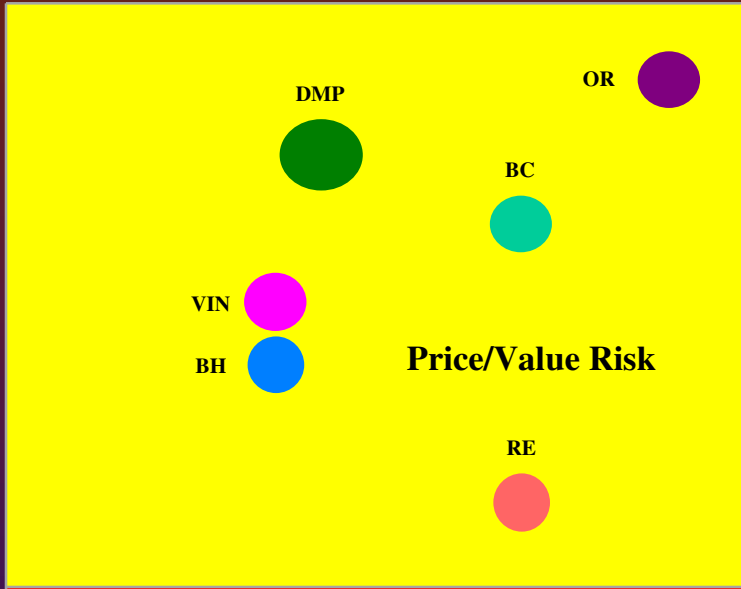




High 20

Attractiveness  
(Value Pts)

Low 10



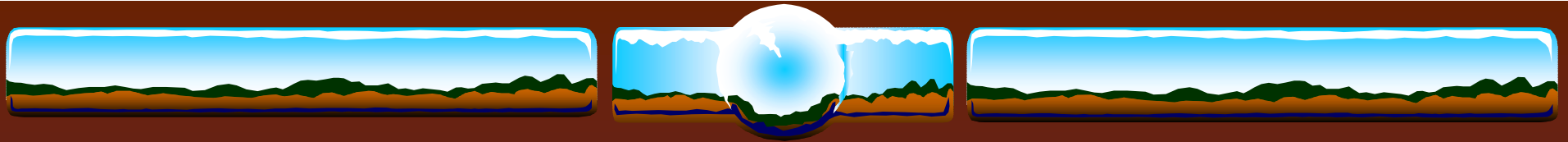
High 200 Low

**Joining Fee Price**



## Interpreting the Chart The General Framework

- **Chart Axes:** The horizontal axis displays the membership fee (joining price) and the vertical axis measures how attractive a club is using value points
- **Green Quadrant - Value for Price Leaders:** The best places - highly attractive clubs at a lower price thus having a better price to value ratio for current and prospective members
- **Yellow Quadrant - Price Value Risk:** Clubs with excellent attractiveness but at a premium price. They may be at risk of losing out to equally attractive clubs costing less
- **Blue Quadrant - Price Driven:** Lower attractiveness but also lower prices, they tend to compete mostly on price, appealing to members putting affordability ahead of quality and appeal
- **Red Quadrant - Uncompetitive:** May be too expensive for their less attractive offering, representing an unappealing choice.



## Interpreting the Membership Fee Analysis Top National Communities

- **Desert Mountain Past – Price to Value:** The DM of the Past (DMP) is in the yellow high risk quadrant, born out by the reality that in the last several years membership sales at full price have not been significant.
- **Desert Mountain of the Future – Price to Value:** The Desert Mountain of the future should be well into green territory as the entry price at \$140,000 is extremely competitive. In addition, there should be ample room to raise our membership fee over time and remain competitive.
- **Relative Attractiveness:** DM ranks near the top in attractiveness, and as the member amenity package is enhanced the attractiveness score should only increase.



## Attractiveness Model-Top Local Competitive Communities

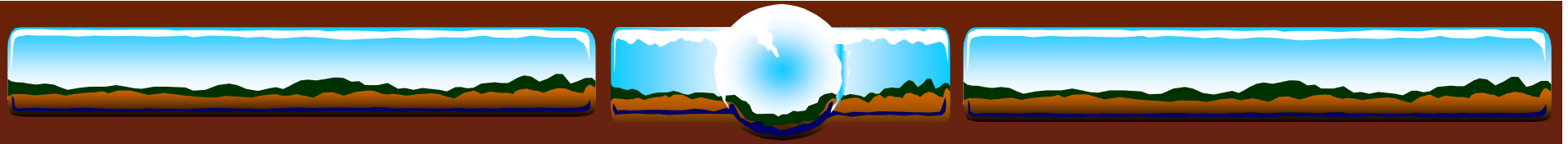
Attractiveness Attributes  
(subjective and approximate)



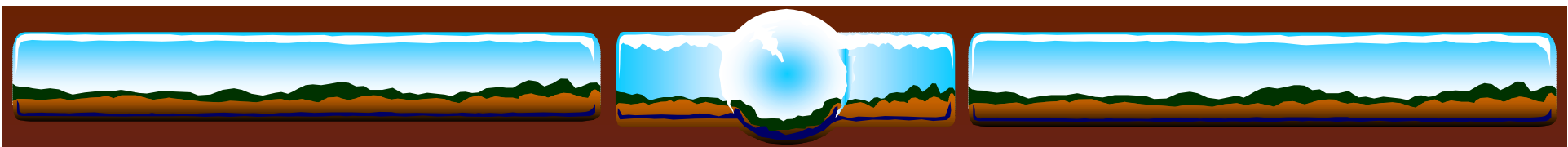
CLUB	Reputation/ Quality	Scope Of Amenities	Golf Intensity	Attractive Real Estate	Attractiveness Score	Entry Price
Desert Mountain Past	5	3	5	5	18	\$325
Desert Mountain Future	5	5	5	5	20	140
Troon C C	4	3	3	3	13	85
Desert Highlands	4	3	3	3	13	75
Mirabel	4	3	2	4	14	75
Estancia	5	2	3	5	15	65 (Mkt)
Silver Leaf	5	3	4	5	17	150
DC Ranch	3	3	2	3	11	75 (Mkt?)
G C of Scottsdale	5	3	3	4	15	110
Paradise Valley CC	4	3	2	3	12	40



Score 1-5      Low to High



Price to Value Relationship  
for Membership Fee of  
Top Residential Golf Communities  
(Local)



High 20



\$150  
High

75  
Joining Fee Price

\$0  
Low



## Interpreting the Joining Fee Analysis Local AZ Communities

- **Price Axis:** Because the local Scottsdale/Phoenix club population is lower in price, the price axis has been adjusted to make it easier to display the chart.
- **Pricing and Attractiveness Clustering:** Scottsdale/Phoenix area clubs tend to cluster into a relatively narrow range of pricing and level of attractiveness. Many have recently made dramatic price reductions or adopted a market driven model settling in around the \$75K - \$140K range. All have only one or two golf courses and quality, but limited, non-golf amenity packages. This results in their level of attractiveness being strategically very similar.
- **Desert Mountain Competes Nationally:** The scope and scale of Desert Mountain is substantially beyond that of other local clubs/communities. DM actually competes nationally for members against the truly best high-end golf communities in the country. The \$140K initiation fee in is well above the current local market; however, is highly competitive compared with the national reference communities.



## 2011 Membership Pricing (cont'd)

### On-Property (Naked Lot/House) Incentive Program:

- Available until July 1, 2011 unless terminated sooner at the Board's sole discretion
- Must be a homeowner or lot owner in good standing and current on all assessments/dues/club charges (if already a member) and HOA fees
- Monthly dues for first 24 months reduced by 50% (e.g. from \$1,190 to \$595 during 2011)
- Pro-rating of 2011 F&B minimum

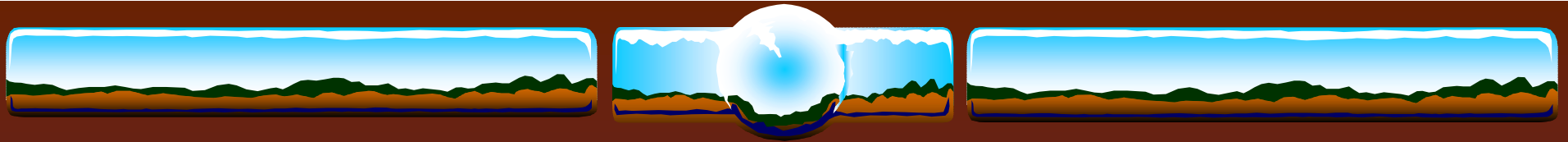




## 2011 Membership Pricing (cont'd)

### Equity Golf Membership Financing Program:

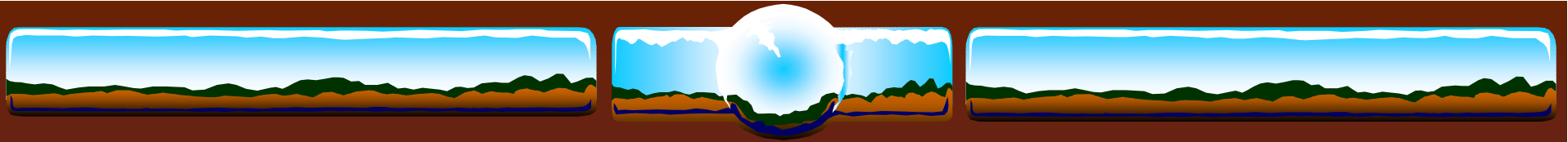
- Available until July 1, 2011 on sales of unissued or Surrender List memberships unless terminated sooner at the Board's sole discretion
- Initial payment of **\$75,000** paid at time of purchase. First installment of P&I due one year thereafter ( $\$32,500 + \$2,112.50 = \mathbf{\$34,612.50}$ ) and second installment of P&I due two years thereafter ( $\$32,500 + \$4,225 = \mathbf{\$36,725}$ ) for a total membership fee of **\$146,337.50**
- Annual interest rate of 6.5% factored into both installment payments
- Membership provided as collateral for installment payments



## 2011 Membership Pricing (cont'd)

### Equity Golf Financing Program (cont'd)

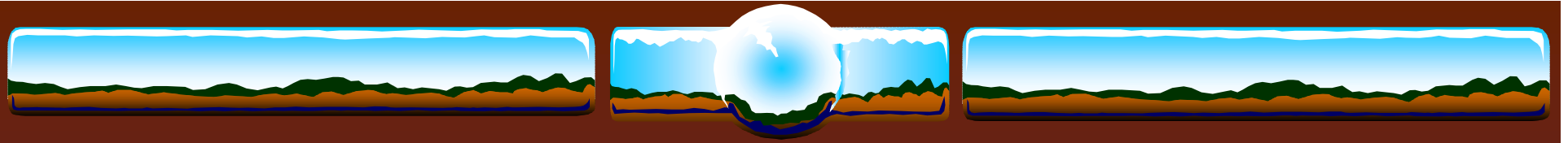
- Installment payments more than 30 days past due may result in DMC, Inc. immediately terminating the membership and having it revert to the club for future reissuance, seeking judgment for collection of any delinquent fees/dues/club charges/assessments and/or pursuing any other remedies available at law
- Personal guaranty required if membership is held by an entity (LLC)



## 2011 Membership Pricing (cont'd)

### Equity Club Member Usage

- Policy change for the 2011 calendar year
- Maximum number of available Peak Season individual rounds for each Club member and his/her immediate family members will be increased from 8 to 12



# Surrender List

Presenter:

Harold Eastridge



## Surrender List 101

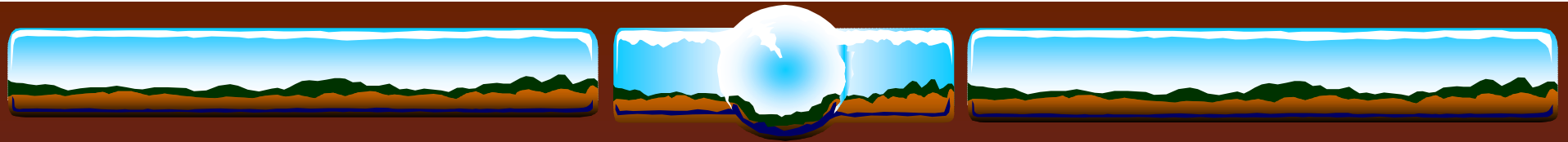
- Used to establish an orderly process for sale of memberships not in conjunction with a property sale
- A member in good standing may surrender membership via written notice to the club
- A member who has placed their membership on the surrender list retains use of club privileges
- The surrendering member is obligated to remain current on payment of all dues/club charges/assessments



## Surrender List cont'd.

- Current Status

- DEGM's - 111 members representing 113 memberships
- DECM's - 3 members
  
- Oldest Surrendered DEGM - January, 2004
- Oldest Surrendered DECM - November, 2006
  
- Total On property - 11
- Total Off Property - 105
- Total Delinquent - 23



## Surrender List cont'd.

- Sales of Memberships from the Surrender List
  - Current Bylaws/DEMP stipulates that every fifth membership sold shall be taken from the Surrender List in the order of surrender
  - New bylaws effective January 1, 2011 stipulate that every fourth membership shall be taken from the Surrender List in the order of surrender
  - In order to hasten clearance of surrendered memberships the new bylaws stipulate that, on a temporary basis, every second membership will be taken from the Surrender List in the order of surrender

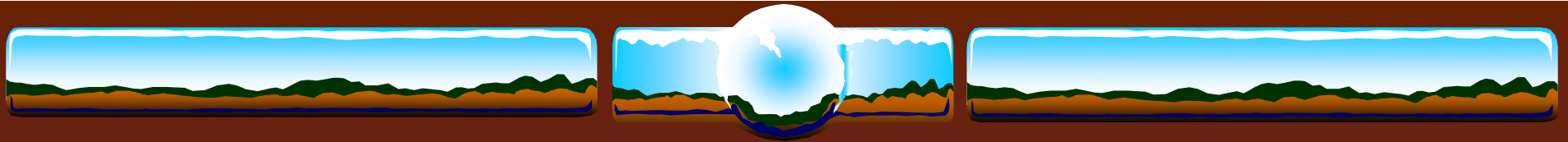


## Surrender List cont'd.

### Reissuance of membership from Surrender List:

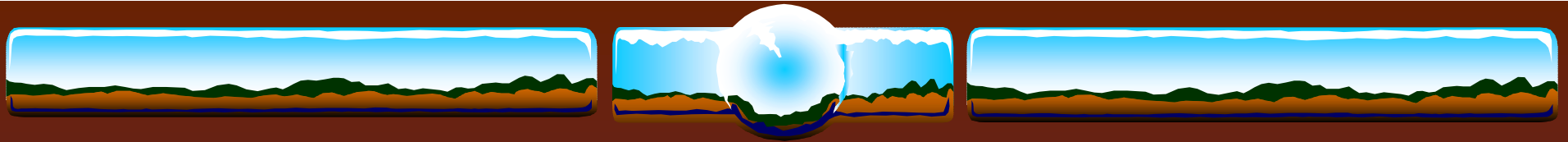
- Member must be in good standing and current on payment of all dues/club charges/assessments
- Member receives 100% of the then current membership contribution less the transfer fee (i.e. the greater of \$65k or 20% of the then current membership contribution)
- Post-turnover the club will evaluate remedies to clear list of delinquent members under section 4.2.4 of the new bylaws





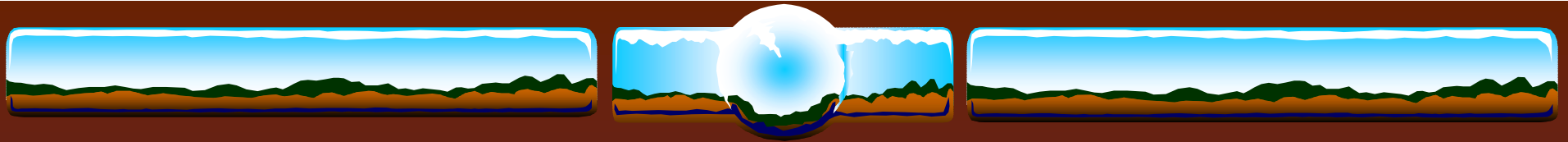
## Surrender List cont'd.

- Surrender List Withdrawal Program
  - Current bylaws/DEMP do not allow for withdrawal from Surrender List
  - Several members have expressed an interest in withdrawing from the Surrender List
  - The AB has rec'd. permission from the developer to institute a temporary withdrawal program prior to January 1st



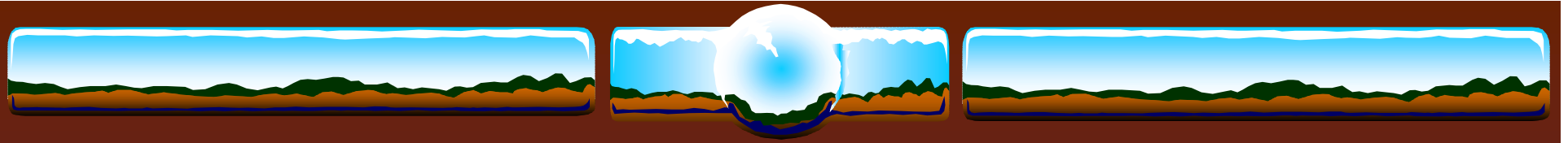
## Surrender List cont'd.

- Withdrawal Program Conditions:
  - Available through January 31<sup>st</sup> and written notice delivered to the Fairway Office c/o Bob Jones
  - Member must be in good standing and current on all dues/club charges/assessments
  - The withdrawing member may not place the membership back on the Surrender List prior to April 1, 2011
  - The member acknowledges that the Board may institute a fee of up to \$5,000 in order for the membership to be returned to the Surrender List. Membership placed at bottom of list



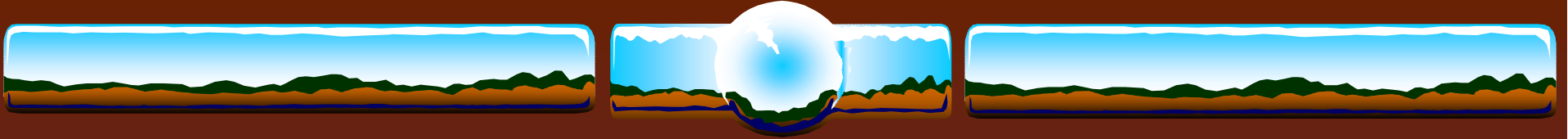
## Surrender List cont'd.

- Benefits of Withdrawal Program
  - Allows Member to take advantage of Legacy Transfer feature of new bylaws
  - Allows widowed spouse to take advantage of Inheritability Transfer feature of new bylaws
  - Allows member to be released from Surrender List and resume membership in new member - owned club



# Employee Retention

Presenter:  
Bob Jones



Our Mission is to make Desert Mountain one of the finest private residential and recreational communities in the world by providing superior service and outstanding amenities in an atmosphere of excellence

➤ **INTEGRITY**

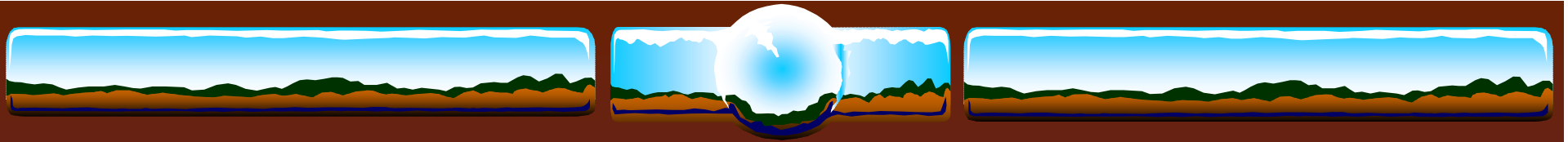
➤ **FINANCIAL RESPONSIBILITY**

➤ **TEAMWORK**

➤ **INNOVATION**

➤ **SPIRIT TO SERVE**

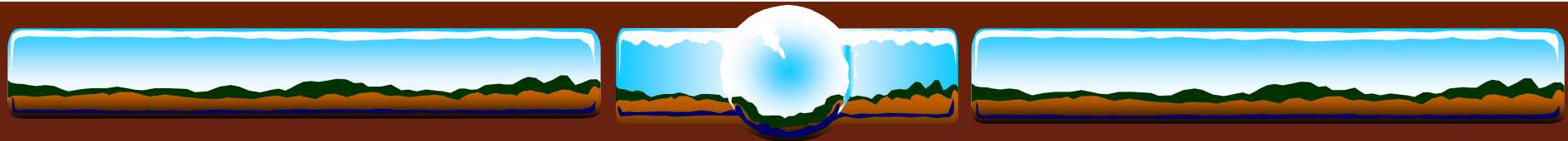
➤ **FUN**



# Desert Mountain University

## The Four Disciplines of Execution

- Focus on the Wildly Important
- Act on Lead Measures
- Keep a Compelling Scoreboard
- Create a Cadence of Accountability



# Regular/Charter Non-Equity Memberships

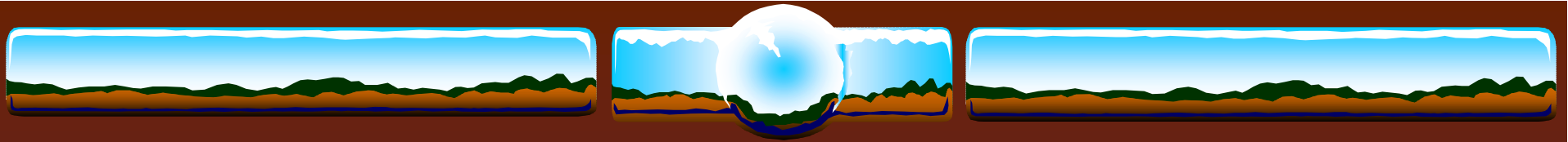
Presenter:  
David White



## Non-Equity Memberships (cont'd)

- Vocal and written objections by some Non-Equity Members have been received by the AB
- The issue of a “hidden assessment” has been repeatedly raised to justify the argument that Non-Equity Members should pay a dues level reduced by debt service amount as compared to Equity Members
- Prior notice of debt service





## Non-Equity Memberships cont'd.

Article 6.5.3 of the Current Bylaws of The Desert Mountain Club states:

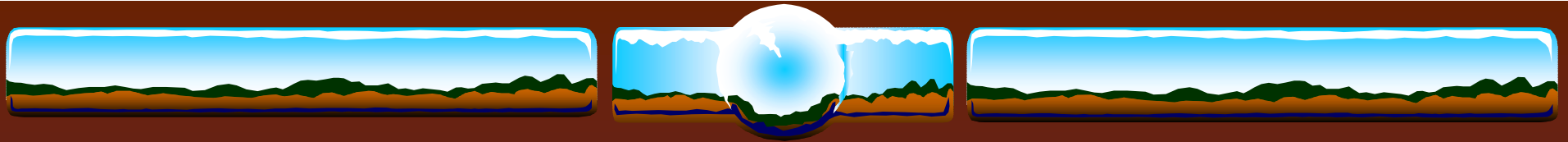
*“Regular Memberships are non-assessable, except with the approval of at least 51% of all Regular Members who would be subject to a proposed assessment.”*



## Non-Equity Members (cont'd)

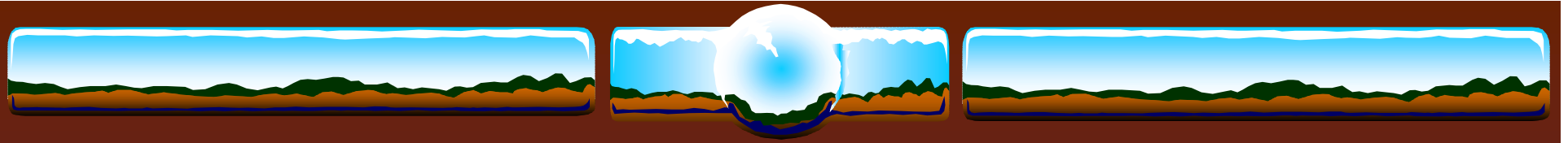
Article 6.5.1 of the current Bylaws of The Desert Mountain Club states:

*“The monthly dues payable by Regular Members shall be as established by the Board, taking into account costs of operations, reasonable reserves (if any), cost of living increases, the level of dues, use fees and other charges at fine clubs throughout the world (while considering comparability of physical facilities and service levels), and such other matters as the Board deems relevant.”*



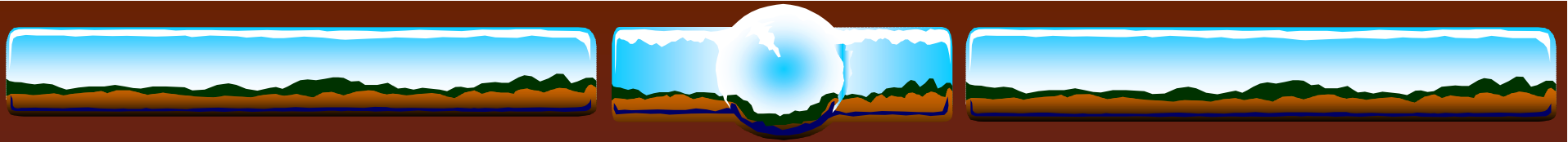
## Non-Equity Members (cont'd)

- Since approximately the year 2000, Non-Equity Members have been charged the same dues amounts as Deferred Equity Members
- Contemplated club policy for 2011 continues the practice of charging Non-Equity Members the same level of dues/fees as Equity Members. Further, those 2011 dues would be in line with other comparable clubs.
- The turnover transaction does not impose the \$16,500 assessment on Non-Equity Members that is being charged to Equity Members
- Non-Equity Members will continue to enjoy existing amenities and facilities as well as future enhancements and additions



# Bylaw Process

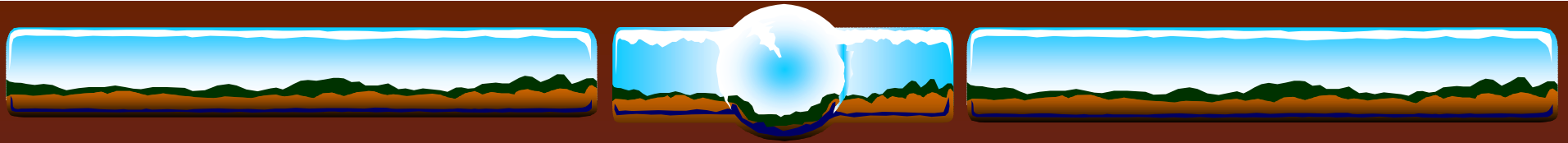
Presenter:  
David White



## Bylaw Process

Article 25.15 of the current Bylaws of The Desert Mountain Club states:

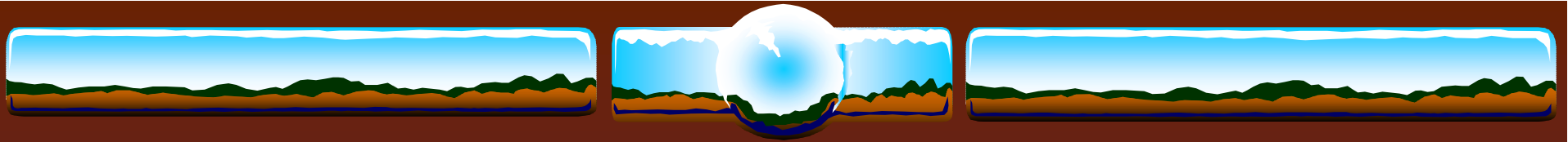
*“Following the Turnover, for so long as the Company continues to own real property at Desert Mountain, the Board may not, without the prior written consent of the Company, which consent may be withheld in the sole and absolute discretion of the Company, change, modify or delete these Bylaws”.*



## Bylaw Process (cont'd)

Article 15 of the proposed Bylaws for the newly formed Desert Mountain Club, Inc. states:

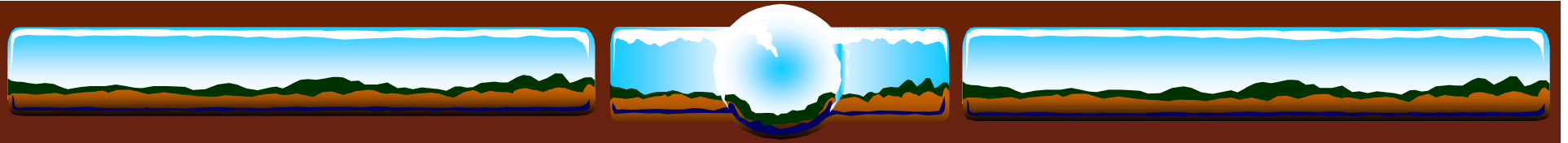
*“An amendment of the Bylaws is a Major Decision and fifty percent (50%) of all of the Equity Members eligible to vote, by a vote in person, absentee ballot or proxy, shall be the required quorum and a majority vote of the votes cast of the quorum shall be required to amend the Bylaws. Provided, however, any amendment that is (i) necessary to correct or clarify an existing provision of the Bylaws that is not materially adverse to the Members ... may be approved by a two thirds (2/3) vote of the Board, without a vote of the Equity Members.”*



## Bylaw Process (cont'd)

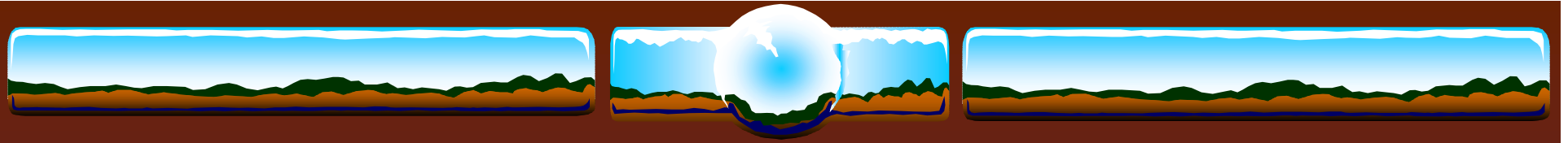
Article 17 of the proposed Bylaws for the newly formed Desert Mountain Club, Inc. states:

*“The interpretation of these Bylaws shall rest with the Board unless and until superseded by a two-thirds (2/3) majority vote of the votes cast of the quorum of Members required for a Major Decision at a meeting of the Membership.”*



# Questions & Answers





Next Town Hall Meeting

Monday, January 17th