



March 15, 2016

Dear Member,

We are writing to advise you that the Club has signed a Purchase and Sale Agreement (PSA) to sell Parcel 19, and to provide you with important information regarding this proposed transaction to assist you in casting your vote on the sale of this property.

During 2015, the Board appointed a Real Estate Workgroup led by Chair Chuck Harrison, Board members Harold Eastridge and Joe Maslick and members-at-large Stephen Draizin and Scott Urdang together with Desert Mountain management. At the direction of the Real Estate Workgroup, the Club engaged American LIVES, a nationally recognized community, resort and hospitality market research firm to perform a highest and best use study for Parcel 19. This study included focus group meetings with members and realtors together with an extensive review of alternate land plans, demographics and trends in the local markets. The study concluded that the most appropriate use of the property is a residential product that also provides additional amenities to the current members. Also, in the 2015 Member Survey, members were asked to express their opinion on the best option for Parcel 19 and 77% expressed an interest in selling Parcel 19 and using the proceeds to fund future capital needs. Based on the results of the American LIVES study and the views expressed in the Member Survey, the Club re-engaged the well-regarded local real estate brokerage firm, Nathan & Associates to determine the level of interest in acquiring the property.

The Club subsequently received expressions of interest from nine companies and letters of intent from four parties. All proposals were evaluated by the Real Estate Workgroup and we pursued negotiations with the two most attractive proposals and concluded negotiations with the one that offered the best overall value to the members, which was M3 Companies LLC (M3).

As a result of the negotiations, Desert Mountain Club, Inc. received an offer from M3 to purchase Parcel 19 for \$24 million. This offer was reviewed by the Board and, upon unanimous approval, the Club entered into a PSA with M3, as described below. Under this agreement, M3 will develop an upscale master-planned residential community together with an 18-hole short-game course built to Jack Nicklaus Design standards and further enhanced by a clubhouse and related facilities.

This transaction provides the Club with a number of benefits including:

- Additional memberships and related revenue
- Additional amenities with access for Desert Mountain golf members that could be made available to lifestyle members at some time in the future (currently under review by the Board)
- Reduction of the Club's long-term debt from turnover
- Contribution of additional funds for the long-term capital needs of the Club

It should be noted that there are certain hurdles to overcome before the transaction can close. More specifically, these hurdles include (1) the approval by the City of Scottsdale of a General Plan Amendment, the developer's master plan to include at least 150 residential lots and a more refined rezoning of the parcel from mixed-use to residential and, (2) the affirmative vote of the Club's membership.

Where is Parcel 19?

Briefly, this property consists of approximately 86.5 gross acres situated on the southwest corner of Desert Mountain with frontage on Cave Creek and Pima Roads. The property has acreage currently zoned for office, industrial and commercial, together with some residential. Click [here](#) to see an overview presentation, with maps, of the Parcel 19 transaction.

What does M3 plan on doing with Parcel 19?

M3 is planning an upscale residential community as well as an 18-hole short-game course, clubhouse and related facilities. The clubhouse will include a pro shop, bar/grill and cart barn together with parking. The short-game course and clubhouse will be available to all Desert Mountain golf members and could be made available to lifestyle members at some time in the future (currently under review by the Board). These amenities will eventually be deeded back to Desert Mountain as part of this transaction.

The 2,700-yard, short-game course is to be built to Jack Nicklaus Design standards and maintained to Desert Mountain's agronomy standards by our Director of Agronomy and his team. The developer will subsidize the maintenance of the course for five years or until the development is sold out, whichever comes first. The new course will appeal to golfers of all ages and diverse playing levels and offer members a unique opportunity to improve their short-game skills. It will also address the high demand for tee times during peak periods of play. With the addition of the short-game course, the members will have 126 holes with a great variety of golf that will benefit our current members and enhance our reputation as one of the premier golf facilities in the country.

M3 proposes to build a minimum of 150 homes and up to 190 homes. Depending on the number of lots approved by the City of Scottsdale, a corresponding number of 150 to 190 equity golf memberships are included in the transaction. All units sold are required to have and maintain a Desert Mountain Equity Membership enforced by a deed restriction.

Who is the buyer?

M3 is a developer known for its thoughtful design of master-planned communities in the Western U.S. It has a reputation for developing communities that celebrate the heritage and history of unique parcels of land while preserving their timeless beauty for future generations. M3 has prior experience in designing golf courses such as its award-winning course at Wickenburg Ranch which includes the first 9-holes of a planned 18-hole short-game course. Some of the company's other communities include Prescott American Ranch and Prescott Lakes in Arizona, Sandstone American Ranch in Colorado, and M3 Eagle in Idaho. The company is owned by Bill Brownlee (a Desert Mountain member) and Scott Schirmer, who both have many years of experience in Arizona real estate.

What are the Key Provisions of the Agreement?

The key provisions of the PSA are as follows:

- Purchase price of \$24 million with \$1.0 million escrow deposit (made on March 11, 2016)
- Subject to membership approval as required under the Club's bylaws
- Contingent on City of Scottsdale approval of at least 150 units and the developer's master plan, General Plan Amendments and required rezoning
- Development of a minimum of 150 and maximum of 190 residential properties
- Deed restriction requires a Desert Mountain membership, subject to approval through Club's membership application process
- Construction of short-game course available to Desert Mountain members
- Course maintenance provided by Desert Mountain and subsidized by M3 for five years or until the development is sold out, whichever comes first.
- Eventual conveyance of short-game course to Desert Mountain
- Closing date in 1st Quarter 2017

Based on the \$24 million purchase price, the economics of the sale are as follows:

Estimated Net After-Tax Proceeds (NATP)	\$21.0 million
Use of Proceeds:	
National Bank of Arizona (Loan Agreement Reserve Account 65% of NATP)	
Immediate Pay down of Loan #2 (20% of NATP)	(\$4.2) million
Capital Reserve for Certain Capital Projects (45% of NATP)	(\$9.5) million
Club Maintenance and Capital Repairs Account	(\$7.3) million

How do we learn more and vote?

Given the importance of this transaction to the Club, we want to assure that each member understands the significant terms of the proposed agreement and is given ample opportunity to ask questions before voting on the sale. We have scheduled three town hall meetings at the Cochise/Geronimo Sunset Terrace as noted below. During those meetings, Club management and the Real Estate Workgroup will discuss the

proposed sale. M3 will also present its preliminary development plan and will be available to answer members' questions.

Members may vote on the sale from March 15 through April 11, 2016. To vote online click [here](#). You may also vote by paper ballot which is being sent to you in the mail. An overview presentation of the Parcel 19 transaction can be viewed [here](#).

Voting materials available to the membership	March 15, 2016
First and second town hall meetings	March 23, 2016 at 3 p.m. and 6 p.m.
Third town hall meeting	March 24, 2016 at 10 a.m.
Voting ends	April 11, 2016 at 5 p.m.

We hope you will attend the town hall meetings and encourage you to vote on the sale of Parcel 19. The Board believes this opportunity is in the best interests of the Club and recommends approval of the transaction.

Finally, we again want to thank the Real Estate Workgroup and Club management Bob Jones and Kelly Rausch for their significant role leading to this final agreement.

Sincerely,
Desert Mountain Club Board of Directors

Frequently-Asked Questions

Q. #1 - What is the appraised value of Parcel 19?

A. Two self-contained appraisals were performed in October and November, 2013 and updated by the respective appraisal firms as of 2016. Both were conducted by the local offices of the Viewpoint Group and Cushman & Wakefield. If you are interested in further details regarding the appraisal process and resulting values, we will be glad to review those with you in person. As with the PSA, you may do this by scheduling an Office Hours session by contacting Francine Keller at fkeller@desertmt.com or 480-595-4029.

Q. #2 - Can members review the PSA and appraisals for Parcel 19?

A. Yes. These documents are available for members to review at the Fairway Office after first signing a confidentiality agreement. Members may either schedule an appointment to review them in person on an individual basis, or make an appointment to attend an Office Hours session to review and discuss them with a Desert Mountain Board member. Please contact Francine Keller at 480-595-4029 or fkeller@desertmt.com to make an appointment.

Q. #3 - When is the transaction scheduled to close?

A. The closing is anticipated in the First Quarter of 2017 upon receipt and granting of all necessary governmental approvals. Also, it is important to understand that we have many hurdles to address before the transaction can close. While the parcel is approximately 86.5 gross acres, only approximately 50 acres is developable for residential product. The Parcel 19 site has many easements associated with the Club's irrigation infrastructure, a major wash that transverses the property and the plan is subject to governmental approvals. The Real Estate Committee will be working diligently to address the issues associated with these hurdles.

Q. #4 - How large is the deposit and is it non-refundable?

A. The deposit amount is \$1 million and it has been placed into escrow. The deposit is non-refundable subject to certain conditions. Those conditions are: 1) General Plan Amendment through the City of Scottsdale which would take place in December 2016, 2) rezoning of the parcel to "R4" for the residential portion and "Open Space" for the short-game course, 3) approval from the City of Scottsdale for a minimum of 150 residential lots, and 4) approval of the transaction by the members of Desert Mountain Club.

Q. #5 - Why are we including up to 190 equity golf memberships in this transaction?

A. There are several key reasons why this was done. The first and most obvious is to grow our membership base for an increased stream of ongoing dues and the revenue generated by additional member spending. In addition, this transaction obligates M3 to require all units to have a Desert Mountain Equity Membership enforced through a deed restriction. The final total number of memberships will be determined by the number of lots approved by the City of Scottsdale master design through the re-zoning process. And lastly, this puts the Club in a more favorable income tax position as it relates to the overall transaction.

Q. #6 - Are the up to 190 memberships included in the transaction 'treasury' memberships (i.e. never issued by the Club) or will they come from the Membership Resale Program ("MRP")?

A. The memberships included in the transaction are from the Club's treasury of unissued memberships and not from the MRP. When an applicant is approved through the Club's normal membership application process, that membership will only be activated when the Club is provided written notice by M3 that the individual has closed on a lot/residence purchase.

Q. #7 - How many unissued and golf and lifestyle memberships would be left outstanding exclusive of the memberships included in this transaction?

A. Desert Mountain Club Bylaws specify that the total number of equity golf memberships shall not exceed two thousand three hundred seventy-five (2,375). As of December 31, 2015 a total of 1,928 equity golf and 81 club/lifestyle memberships have been issued which leaves the Club with 447 equity golf and 209 lifestyle memberships remaining in its treasury. Assuming all deed restricted lots are issued an equity golf membership, 257 memberships would remain to reach the bylaw cap. Current

projections anticipate these memberships would begin being issued in two years and completed in seven years from the estimated close of the transaction.

Q. #8 - Since all of the lots are deed-restricted to require memberships, are new potential members subject to our same Club membership process?

A. Yes. All memberships included in the transaction are intended for use with Parcel 19 development. The developer may not use the memberships for any other purpose or sell them on the open market. These memberships are subject to the Club's normal membership application process and must be approved by the Board of Directors.

Q. #9 - Are any shares of the Club's irrigation water rights included in the transaction?

A. No. As some of our longstanding members may recall, the Parcel 19 purchase option exercised in 2005 included a one-half share of irrigation water that would have been reserved for use with the possible future construction of a nine-hole or executive golf course. However, no shares of irrigation water or rights are included in the M3 transaction and all existing water assets remain the property of the Club.

Q. #10 - What type of community is M3 planning to build on Parcel 19?

A. M3 has a strong reputation for building lifestyle communities in the Valley, northern Arizona, Colorado and Idaho. The firm's American Ranch Brand celebrates the heritage and history of a piece of land, preserving its timeless beauty for future generations and creating communities like Prescott American Ranch and Sandstone American Ranch in Colorado that support this vision. While M3 has not finalized its individual home designs for Parcel 19, the design intent will be a gated private community featuring contemporary and European desert architecture. The majority of the homes will feature view corridors over the 18-hole short-game course. The master development plan and home design all must comply with the City of Scottsdale zoning and design review planning prior to implementation. For additional information please visit M3's website at: <http://m3companiesllc.com/>.

Q. #11 - How will the members approve the transaction?

A. Our Club is obligated by the PSA to obtain member approval after the PSA is executed. We must notify M3 after approval is obtained, and no later than April 11, 2016. The Club will provide all equity members in good standing the opportunity to vote with the preferred method being online via a link to the member-only website. According to the Club Bylaws, Section 11.1, in order for a vote to be ratified, a quorum (50%) of all equity members in good standing must cast a ballot and a simple majority is required for approval. All votes are due by 5:00 p.m. (AZ time), April 11, 2016.

Q. #12 - Will any developed property situated on Parcel 19 become part of the Desert Mountain Master Association (DMMA)?

A. No. There is not a requirement in the PSA for any developed property on Parcel 19 to become part of the DMMA (i.e., the HOA). M3 will establish the community's own separate HOA.

Q. #13 - What is the estimated net after-tax proceeds (NATP) from the Parcel 19 sale and how will the proceeds be used?

A. The actual amount of the proceeds received by the Club will be net of all transactional costs including broker commission, legal fees, taxes and other miscellaneous costs and adjustments resulting in a net amount of approximately \$21 million. We are obligated by our loan covenants with National Bank of Arizona (NBA) to set aside a reserve fund equal to 65% of the net after-tax proceeds of this or any other asset sale. Of the 65%, a minimum of 20% of the net after tax proceeds must be used immediately to pay down our NBA loan and the other 45% may be used by the Club to further pay down debt or invest in Club assets within a two-year period after the sale. If the 45% of proceeds is not used for approved capital projects, the remaining portion of the 45% will be used to reduce the Club's debt. The remaining 35% is unencumbered and will be held for future investment in capital maintenance and improvements or new member-approved amenities.

It is the intention of the Board to apply any unused proceeds from the projects set forth above to further bolster the Club's Repairs and Maintenance account or Other Capital account according to the Club's long range capital plan and to pay down debt as required.

Q. #14 - Will the balance of the \$24 million be paid at closing and not over time as the lots are sold?

A. Yes. The actual amount of the proceeds received by the Club will be net of all transactional costs including broker commission, legal fees and other miscellaneous costs and adjustments resulting in an amount of approximately \$21 million. The balance of that net amount (less all deposits) will be paid at closing and not at the time the lots are sold.

Q. #15 - How many acres does Parcel 19 consist of and how many lots are platted?

A. Parcel 19 is comprised of approximately 86.5 acres. The developable area for homes on Parcel 19 is approximately 50 acres. M3 has not yet submitted its development plans to the City of Scottsdale. We are unable to confirm the specific number of platted lots at this time. The PSA reflects a minimum of 150 platted lots, not to exceed 190 platted lots, to be incorporated into their development plan.

Q. #16 - Did the Club perform an Appropriate Use Study for Parcel 19?

A. In March 2015, the Club engaged Brooke H. Warrick with American LIVES, Inc. to perform a highest and best use study for Parcel 19. This study included over 75 focus group meetings to include members, the real estate community and staff. The study also included extensive review of alternative land plans. In addition, review of demographics, trends and the competitive local markets were studied in an effort to form an opinion of appropriate use for Parcel 19. M3's plan for Parcel 19 supports all of the findings in this study.

Q. #17 - Who pays for the maintenance of the new clubhouse and short-game course?

A. As mentioned previously, M3 will be required to subsidize the maintenance of the course for five years or until the development is sold out, whichever comes first. The time frame is dependent on the number of units sold annually and the percentage of dues generated from the Parcel 19 homeowners. Our projections reflect a surplus in dues revenue from the owners of the parcel 19 units to cover all maintenance costs of the new amenity after the five-year period. Please note, the Club will be responsible for all maintenance costs after the five-year period that could result in additional costs if all housing units and Club memberships are not completely sold by that time.

Q. #18 - When did the Club acquire Parcel 19 and how much did we pay for it?

Parcel 19 was one of the assets acquired by the Club along with all of the other Club assets at turnover in December 2010 for a total purchase price of \$73.5 million.