



June 3, 2016

Dear Member,

The Desert Mountain Club Board of Directors met for its regular monthly meeting on Wednesday, May 25, 2016. The agenda for the meeting included the normal and customary items and subject matter along with an update on the Exit Transfer Option ("ETO"). The Board members want to dedicate this month's communication to the most recent Club initiative/program referred to as the ETO.

Exit Transfer Option ("ETO")

As you may recall, in the April 13, 2016 *From the Boardroom* communication, the Board informed the membership that it was conducting a comprehensive review of the Membership Resale Program ("MRP"). During these review sessions, the Board evaluated possible reasons for the slowdown in membership sales and also considered feedback regarding the sales process from existing members and management as well as feedback elicited from potential new members. After considering a number of possible factors for this slowdown, the Board focused on the process for exiting the Club.

Based on this evaluation, the Board determined that it would offer a temporary program, with restrictions regarding the number of members who could participate, from May 16 to September 1, 2016, referred to as the ETO. Hopefully, this program would provide insight into the importance and attractiveness for existing members, members on the MRP and new buyers/members to have an exit process that would eliminate the uncertainty associated with the MRP process and would allow members to leave the Club at a time of their choosing. More specifically, the new program was targeted to:

1. Enable members to elect to exit the Club during the program period upon payment of \$32,500 and surrender their membership to the Club with no further obligation for the \$65,000 transfer fee.
2. Provide members with the option to elect to prepay in full their ETO obligation (set by the Board, pursuant to the Club's Bylaws, at \$65,000) upon the payment of \$32,500 during the program period and obtain certainty as to the timing of their exit from the Club on a future date of their choosing.
3. Offer new members purchasing a membership during the program period the option to prepay in full their transfer fee obligation (set by the Board, pursuant to the Club's Bylaws, at \$65,000) upon the payment of \$32,500, in addition to the applicable membership contribution, and obtain certainty as to the timing of their exit from the Club on a future date of their choosing.

In addition to the temporary program, the Board also revised the MRP to eliminate the utilization of a "floor price", moving to a "market-based" approach.

The response to the ETO was very positive among the membership and exceeded the Board's expectations with over 800 calls received by management within a 3-day period to seek either clarification as to the terms of the program or to apply for the program.

The final results of the program were the following:

1. The program was limited to the first 150 who applied; however, the program was oversubscribed.
2. The Club received 199 applications within three days (66 from the MRP list and 133 from existing members most of whom advised that they have no intention to leave the Club anytime soon).
3. The program created an approved number of 150 applications and a wait list of 49 applicants.

The Board met on May 25, 2016 and approved the following actions:

1. Increased the ETO cap level from 150 to 199 to include all applications received.
2. Created another 35 options, to be offered exclusively to new buyers/members during the remaining term of the program (closes September 1, 2016) to test the attractiveness of this option to a new buyer/member.
3. The ETO proceeds will be segregated and used to supplement any shortfall in transfer fee/membership sales revenues for the 2016 and 2017 budgets (if necessary), to offset a loss of dues revenue until the surrendered memberships are resold. The remainder will be retained for future offsets to transfer fee/membership sales revenue as members who purchased the prepaid exit option leave the Club.

The takeaway from the temporary ETO was that members were attracted to an exit strategy, other than through the MRP, which enabled them to leave the Club at a time of their choosing. The return to pure market-based pricing contributed to the Club exceeding its May sales budget quota by selling twelve (12) Equity Golf Memberships and five (5) Lifestyle Memberships.

The Board has received some inquiries as to whether its adoption of the ETO was motivated by financial concerns, whether the Club's revenues were sufficient to run the Club and how the funds would be used. As explained in our earlier *From the Boardroom* communication "*[t]he ETO is a temporary program that will hopefully provide us with additional insight regarding our exit strategy and pricing of memberships*".

Our Club is very strong financially, with over \$146 million in assets, undeveloped real estate holdings, the pending sale of Parcel 19 for \$24 million and \$14 million in cash as of April 30, 2016. While operationally we are unfavorable to budget through May 2016, the Board and management have a contingency plan to close the gap in operational performance by the end of the year. Additionally, the Club's Finance Committee and the Board have traditionally passed a "cash breakeven" budget which means that the revenues in the annual budget are sufficient to meet ALL of the Club's annual obligations "when and as due" including setting aside capital reserves for future investment in the Club's infrastructure. In keeping with this practice, the 2017 annual budget may include a portion of the ETO

proceeds to supplement any shortfall in transfer fees/membership budgeted sales and to offset a loss of dues revenue until the surrendered memberships are re-sold. The remainder will be retained for future offsets to transfer fee/membership sales revenue as members who purchased the prepaid exit option leave the Club.

In keeping with the Board's commitment to open and transparent communications, we will be responding to questions that have been received regarding the ETO in the "*Because You Asked . . .*" ([click here](#)) section on the website.

We welcome all questions and comments. Please feel free to contact the Board at boardofdirectors@desertmt.com.

Sincerely,
Desert Mountain Club Board of Directors