



Desert Mountain Board of Directors

May 23, 2014

To: All Desert Mountain Equity Members:

As many of you are aware, Desert Mountain has not been immune to the membership challenges that have existed within the private club world for the past several years. Though our Club is financially strong with an active dynamic membership, one issue that is detrimental to membership sales is the existence of a lengthy reissuance list. Our membership marketing associates continue to report that the existence of a lengthy and backlogged reissuance list is the single biggest detriment to new member sales. Some of the first questions they are asked by prospective members are: 'How do you exit the club?' and 'How many members are on the reissuance list and how long does it take to clear the list?' This dilemma, of course, is not unique to Desert Mountain. The Club's Reissuance List currently has twenty (20) more Members on the List than at Turnover (139 vs 119), however, 93 Members were added to the list in 2013 alone. One reason for the increase is the desire of some Members to get on the List to attempt to protect a priority position vs. actually needing to sell their membership at this time. This problem is not unique and many clubs have explored and implemented changes to address their growing Reissuance Lists. As noted in our remarks at the recent Annual Meeting, your Board is sensitive to the concerns of our members who are negatively impacted by the current process and have continued to evaluate various ways to improve upon it.

As a result, the Board is pleased to advise you that we have recently approved a revised membership resale program. We believe the revised program is in the best interests of all members and will eliminate the negative perceptions of our Reissuance List that is a hindrance to new member sales. Equally important, it will overhaul the current process that those members, who have chosen to surrender their memberships, find frustrating and confusing. The Board has the authority to make the amendments to the membership program pursuant to Section 4.7 of the current Bylaws, however, the Board wants to obtain the affirmation of the membership and will be submitting the amendment for a favorable vote of the membership.

Many of the current membership transfer policies will remain the same such as transfer of a membership to the subsequent purchaser of a member's house or lot, and a legacy transfer to a spouse, significant other, adult child or adult grandchild. However, the revised membership marketing program provides three different benefits not in the current membership reissuance program.

Member-Arranged Transfer

An existing member, through his or her own personal efforts, may arrange for a potential candidate to purchase from the Club the member's own equity membership for a sale price determined by the member. This member-arranged transfer avoids having to be included in any of the other resale options specified in the Bylaws. The only conditions are that the transfer fee must be paid in full to the Club by the exiting members, the potential replacement is subject to the Club's standard membership approval process and requirements and the Club's "no advertising" restrictions.

Extension of Death Provision "Election Period"

The transfer upon death provision will increase the time in which the surviving Spouse (or significant other)

or estate must give notice to the Club regarding disposition of the membership from ninety days to one year for the widow. If the membership is not maintained by the Spouse or transferred to an adult child or adult grandchild, the surviving Spouse or estate must participate in the membership resale program. Upon proper notice to the Club, the surviving Spouse or estate will have two years to successfully transfer the membership according to the terms of the membership resale program. During this two-year period, the surviving Spouse or estate will not be obligated to pay dues or assessments and will not have use of the club or voting rights. In consideration of the waiver of dues and assessments by the Club, the membership will automatically revert to the Club if the membership is not sold within this two-year period.

Market-Based Resale Program.

Lastly, the current membership reissuance list will be discontinued, effective with this communication, and the current market-based pricing policy for reissuance list members will be expanded and become available to all members. The highlights of the program are as follows:

- If the membership vote for the Bylaw revisions is favorable, the market-based pricing program will become effective August 1, 2014.
- Each month any equity member in good standing may choose to participate in the membership resale program by setting or updating a price at which they are willing to sell their membership. That will be their "Ask Price" for the following month. This must be done in increments of \$1,000 and submitted in writing no less than two business days prior to the start of the following month. There is no carryover of resale notices and prices from month-to-month.
- If more than one membership is submitted to the Club with the same "Ask Price", resale priority will be given to those memberships appearing on the discontinued reissuance list in numerical order until extinguished and then to the remainder of the members based on seniority (number of years a member of the Club). There is no carryover of priority positions from month-to-month.

The prospective member may apply for the membership with a completed Membership Application and a refundable deposit of \$5,000. If the applicant is approved by the Club, the Club will communicate to prospective members the lowest price available. Upon the acceptance of the price by the candidate, the remainder of the full resale price will be due to the Club. If the resale price exceeds the Transfer Fee, the exiting member will receive the balance. If the resale price is less than the Transfer Fee, the exiting member will be responsible to the Club for the balance.

A more detailed plan overview of the membership resale program is enclosed for your reference as well as the proposed changes to Article 4 of the Desert Mountain Club Bylaws (Resale and Refund).

Please look for the voting package in the mail on or about June 2. You will be able to vote using the hard-copy ballot you receive in the mail or electronically through the Club's website. As a reminder, amending the Bylaws is a Major Decision and in order for the 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. In the meantime, if you have questions or comments regarding this program, please direct them to us at boardofdirectors@desertmt.com.

Thank you in advance for your support of this important initiative.

Desert Mountain Club
Board of Directors

Summary of Proposed Article 4 Bylaw Changes -- Refund and Resale of Memberships

| Category | Status | Notes |
|---|-----------|---|
| Member Resale Program (Articles 4.1 & 4.2) | Expanded | <p>The current membership reissuance list will be discontinued as of May 23, 2014.</p> <p>All Members will be eligible to participate in the membership resale program.</p> <p>Members will establish their own asking price monthly for sale of their membership with no carryover of pricing or priority status from month-to-month.</p> <p>Asking prices must be established in increments of \$1,000. In the event identical asking prices are submitted by more than one Member, Reissuance List Members will have priority according to their position on the Reissuance List as of May 23, 2014, and there will be no further additions to the list. Subsequently, priority will then be determined by member seniority as defined by the number of years as a Club Member.</p> |
| Transfer to Subsequent Purchaser of House or Lot (Article 4.4) | No change | n/a |
| Legacy Transfer to Spouse, Significant Other, Adult Child, Adult Grandchild (Article 4.5) | No change | n/a |
| Transfer Upon Death (Article 4.6) | Changed | <p>Required notice to the Club will be increased from 90 days to one year for widow (or significant other), remains 90 days for estate.</p> <p>Within the one year notice period, the surviving Spouse must elect to maintain the membership, transfer it to an adult child or adult grandchild or participate in the resale program. If neither of the first two options is chosen, participation in the resale program is required. The estate has 90 days to transfer to an adult child or an adult grandchild or shall be deemed to have elected to participate in the resale program.</p> <p>The surviving Spouse or estate has two years to dispose of the membership through the resale program.</p> <p>There are no dues/assessments or Club usage/voting rights during this time.</p> <p>In consideration of the not having to pay dues or assessments, the membership will revert to the Club if it is not sold within two years.</p> |
| Member Arranged Transfer (Article 4.8) | Added | A current Member may replace themselves with their own prospective membership candidate subject to approval of the candidate by the Club |
| No Advertising (Article 4.10) | Added | A current Member may not advertise, via print, electronic or other media, for the purpose of selling or transferring a membership. Non-compliance may result in the denial of a transfer or reissuance of the membership. |