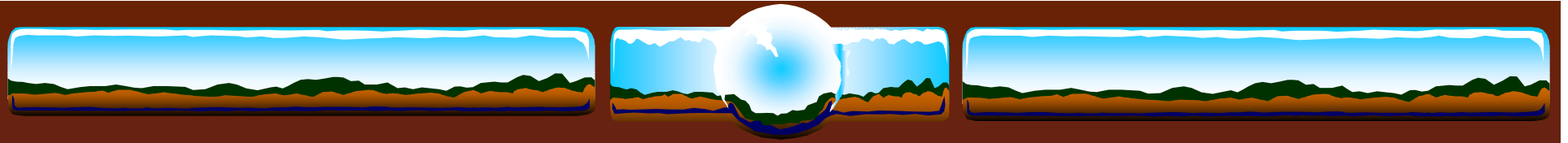


Desert Mountain
Member Advisory Board

Town Hall Meeting

November 15, 2010



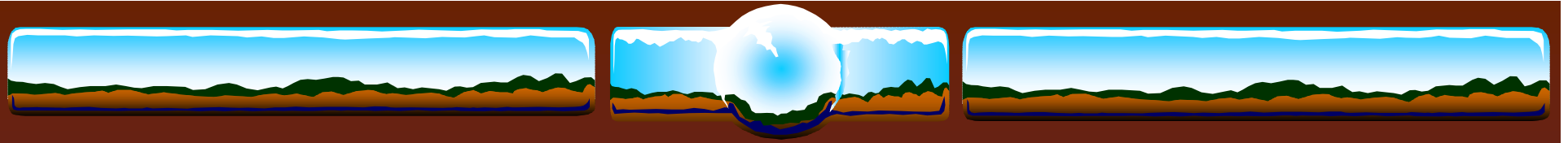
Introduction

David White



Agenda

- Voting & Assessment Mechanics – Rick Harrington
- Assessment Financing - Jeff Erickson
- 2011 Budget & Dues – Joe Maslick
- Mortgage Financing – Paul Wutz
- Review of New Bylaws - Roger Dunbar



Voting & Assessment Mechanics

Presenter:
Rick Harrington

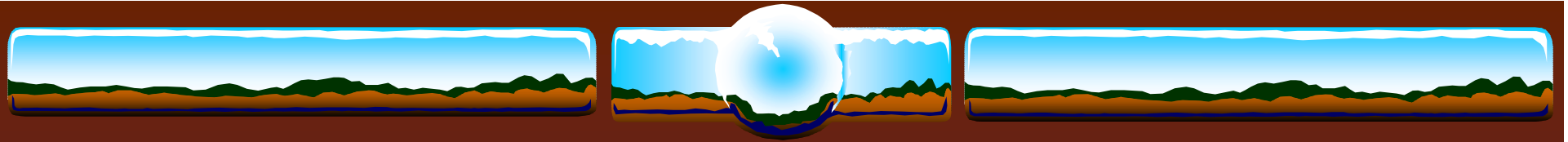


VOTEYES



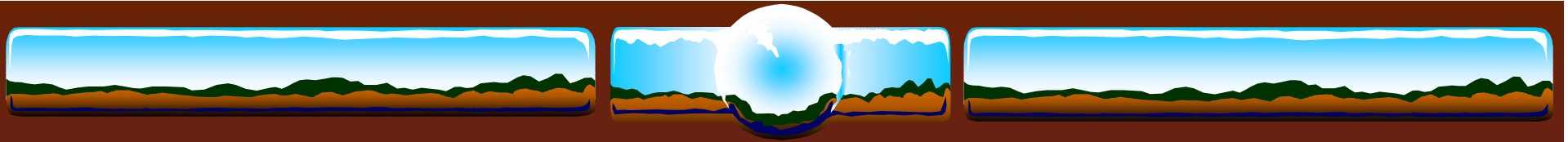
**DESERT
MOUNTAIN**

SECURE YOUR FUTURE



VOTING

- Ballots & voting package mailed soon
- Last day to vote is December 20
(moved from December 17)
- Mailed to billing address
- Approval required by 51% of members



GET OUT THE VOTE CAMPAIGN

- Expo Booth
- ‘Secure Your Future’ Materials
- Letters & e-mails
- Community Leader Support
- Telephone Contact – Member Volunteers



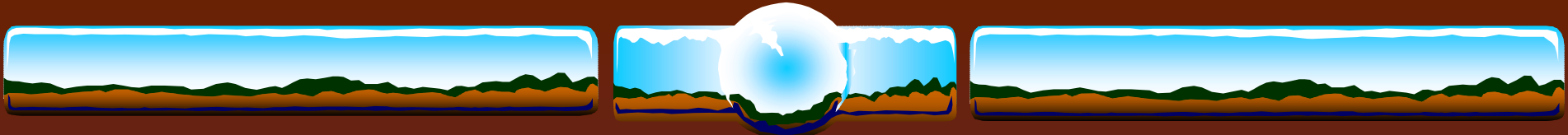
EQUITY MEMBER VOTING PACKAGE

- **READ THIS FIRST** Insert
- Deal Comparison Chart
- Bylaws Summary
- PSA & Bylaws on CD (.pdf file)
- Amended Membership Plan
- Pre-addressed, postage-paid envelope
- **Deferred Equity to Equity Conversion Agreement**
- **Ballot**



Deferred Equity Member Assessments

- Golf Equity - \$16,500
- Club Equity - \$ 5,077
- Payment by Credit card is an option
((\$17,000/\$5,230 including convenience fee))
- Assessment payment must accompany returned ballot
- Full refund from escrow account if vote fails



DUES REDUCTION & TRANSFER FEE CREDIT PROGRAM

- Pay total of \$38,250
(\$39,400 including convenience fee if paying by credit card)
- \$16,500 assessment plus \$21,750 payment = \$38,250
-
- \$200 monthly dues reduction for up to 10 years
(non-transferrable)
- Transfer Fee credit of \$13,000 upon sale of membership
- Dues reduction program available to non-equity members
(no assessment - \$21,750 payment only)



HOW DO I VOTE AND PAY?

- Return ballot, assessment payment & conversion agreement in pre-addressed, postage paid envelope
- Insert in Lock box at Fairway Office
(Monday – Friday, 9:00 a.m. – 4:00 p.m.)
- In person at C/G Polling Stations
(Nov. 18, 19, 23, 26 and Dec. 2, 3, 8, 9 from 1 – 5 p.m.)
 - Voting packages also available at Fairway Office



WHAT IS AT STAKE?

- If vote fails, scheduled turnover on March 1:
- Higher cost
- Higher assessment
- Higher debt
- Fewer Assets
- Crescent keeps many controls over club
- Likely post-turnover litigation

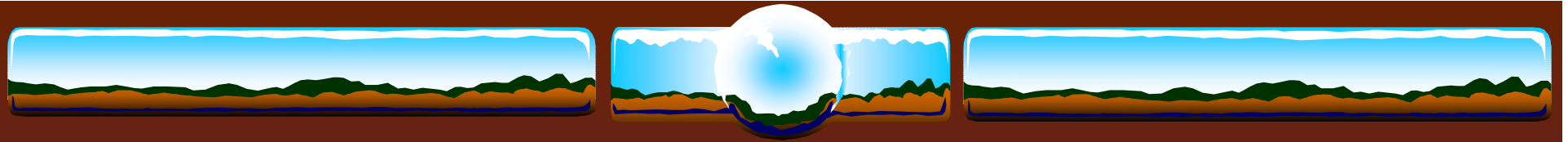


VOTEEYES



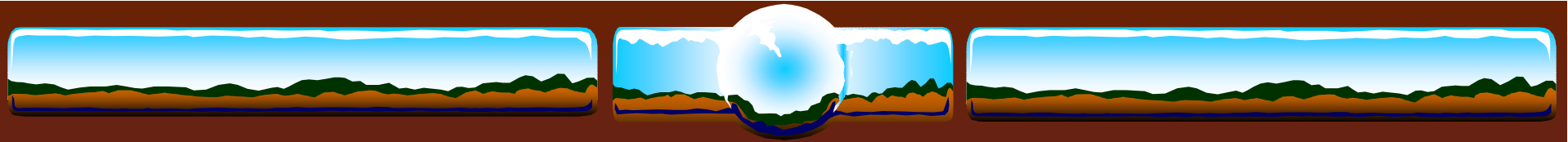
**DESERT
MOUNTAIN**

SECURE YOUR FUTURE



Member Assessment Financing

Presenter:
Jeff Erickson



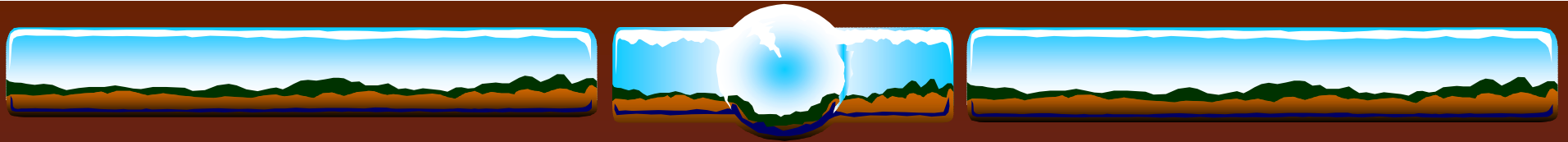
Financing Program

- Arrangements have been for a financing facility to assist cash-strapped members with paying their assessment.
- Available for up to 300 memberships on first come, first serve basis
- Assessment: \$16,500 of which \$10,000 is financed over 2 years
- This represents an annual interest rate of approximately 13%
- Payments will be as follows:
 - Submit your ballot together with first payment of \$6,500 now
 - An additional payment of \$6,000 is due December, 2011
 - The final payment of \$6,000 is due December, 2012



Financing Program cont'd.

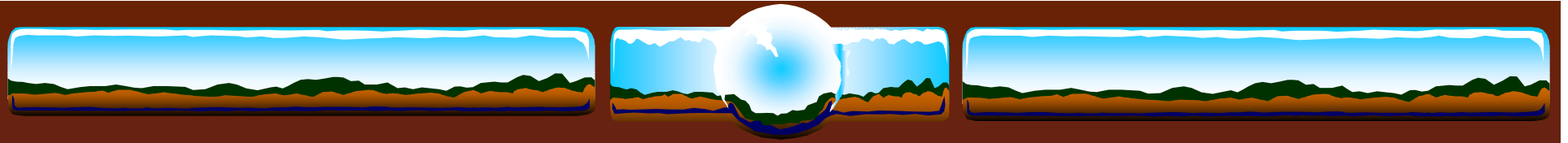
- Eligibility is as follows:
 - Member must be in good standing and current on all dues/club charges
 - Member will execute a promissory note and provide the club with a priority lien on their membership
(if a priority lien is not available the Board will in their sole discretion consider other forms of collateral)



Financing Program cont'd.

How To Apply:

- Contact the Advisory Board via e-mail (advisoryboard@desertmt.com) or by telephone at 1-800-757-1198, ext. 1610
- Submit installment payment #1 of your assessment (\$6,500) together with your completed ballot and conversion agreement
- You will receive a promissory note to be completed and returned to the AB immediately upon receipt
- An acknowledged promissory note will be returned to you for your records
- Your 2nd & 3rd installment payments (\$6,000 each) will be billed to you on December, 2011 & 2012, respectively



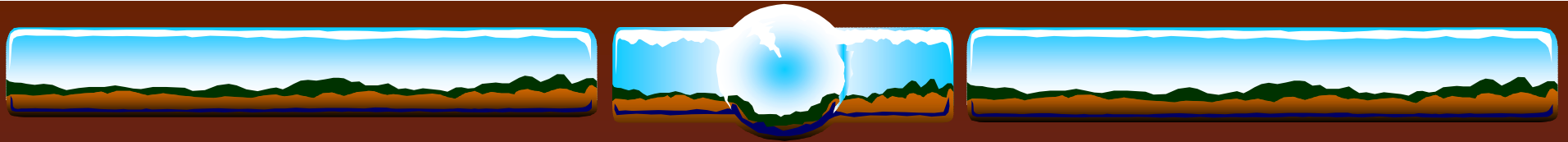
2011 Budget & Dues

Presenter:
Joe Maslick



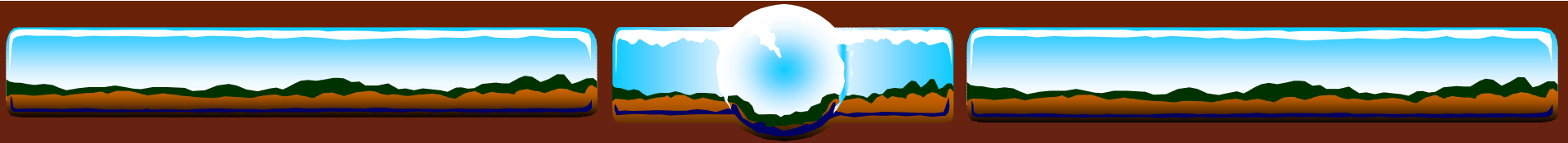
Frequently Asked Questions

- Why are my dues increasing?
- If DMP can run the club at the current dues level why do my dues have to increase post-turnover?
- Are my dues increasing so that you can build large reserves for future projects?
- Will the club be putting aside funds for capital expenditures?



Historical Perspective

- Due to the 2004 Settlement Agreement dues increases were limited to the greater of 5% or increase in the Consumer Price Index.
- Since the Settlement Agreement dues have increased by the maximum amount every year
(e.g. would increase to \$892 (5%) in 2011 if DMP retained ownership)
- Even though dues increased every year by the maximum amount the cost of operations exceeds revenue and has resulted in operating losses of seven figures during each of the past several years.



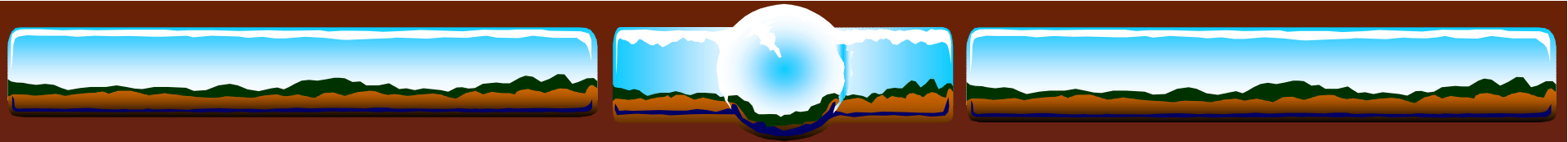
Historical Perspective cont'd.

- Operating shortfalls have been subsidized by DMP real estate sales and transfer fees.
- Since dues were capped DMP looked to other means of generating revenue to offset operating shortfalls
- The club's annual operating budget did not previously include numerous items that will now need to be accounted for in the going forward operating budget.



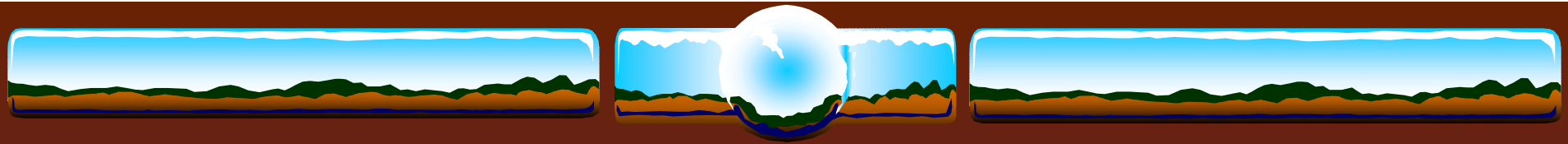
Budgeting Assumptions

- Develop the 2011 budget based on a zero based approach.
- Monthly Dues established at \$1,190 for 2011
- Include reasonable reserves to minimize the need for additional assessments to cover unexpected shortfalls
- Assume P & I payments based on a \$43.5 million note @ 6.5% with 15 year amortization
- Establish restricted “sinking fund” accounts for
 - P & I payments (\$4.6 million annually)
 - Capital Expenditures (\$1.35 million for 2011)



Budgeting Assumptions contd.

- Establish cash reserves for various Membership Programs
- Assume normal inflation factor of 3%
- Assume no major changes in club operations
- Maintain the F & B minimum for 2011 at the current level of \$1,500
- Include budget line item for membership marketing program
- Assume the sale of new memberships
- Assume that Transfer Fee remains at \$65,000 for 2011



Desert Mountain Club, Inc.
2011 Operating Budget P&L Statement (000's)

Revenue		
Dues	\$	32,310
Other revenue	\$	15,894
Total Revenue	\$	48,204
Cost of Goods Sold		
	\$	3,736
Gross Margin	\$	44,468
Operating Expenses		
General and Administration	\$	9,881
Depreciation & Amort.	\$	4,790
F&B	\$	4,864
Pro Shops	\$	6,125
Golf courses, Tennis and Facilities	\$	19,555
		\$ 45,215
Operating Income	\$	(747)
Non Operating Income (Expense)		
Transfer Fees	\$	6,175
Other Income	\$	870
		\$ 7,045
Mortgage Interest	\$	(2,775)
Capital Lease Interest	\$	(150)
		\$ (2,925)
Profit Before Tax	\$	3,373
Income Taxes	\$	(1,349)
Net Profit After Tax	\$	2,024

Desert Mountain Club, Inc.
2011 Operating Budget
Revenue & COGS (000's)

Dues Income

Dues		\$ 26,410
Mortgage Dues		\$ 4,550
Capital Expenditure Dues		<u>\$ 1,350</u>
		\$ 32,310

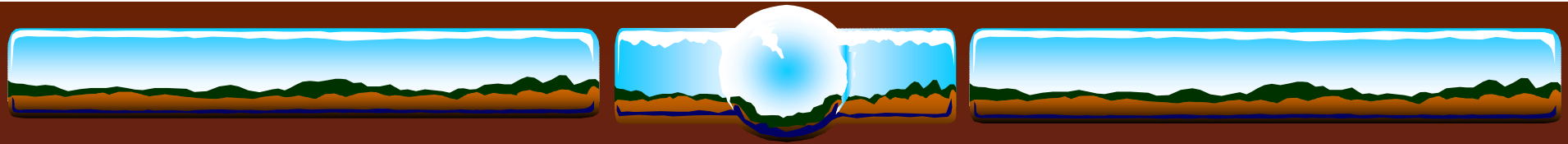
2011 DMC Budget

Other Income

Guest Fees	\$ 2,615	
Cart Fees	\$ 2,136	
F & B	\$ 6,393	
Pro Shop	\$ 3,158	
Other Sales	\$ 1,592	<u>\$ 15,894</u>
		\$ 48,204

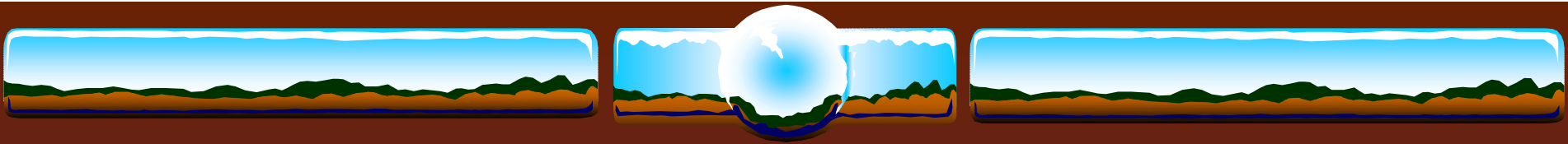
Cost of Goods Sold

Golf Pro Shop	\$ 1,376	
F & B	\$ 2,213	
Sonoran Fitness/Pro Shop	\$ 147	<u>\$ (3,736)</u>
Gross Margin		\$ 44,468



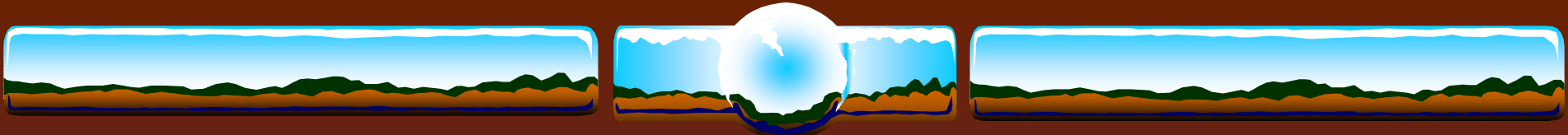
Desert Mountain Club, Inc.
2011 Cash Flow Budget (000's)

Net Profit After Tax	\$ 2,024
Plus Non Cash Items	
Depreciation	\$ 3,890
Amortization of Surplus Memberships	<u>\$ 900</u>
Adjusted Cash Balance	\$ 6,814
Loan Principal	\$ (1,827)
Capital Lease Principal	\$ (1,346)
Capital Expenditures	\$ (1,350)
IWDS Capital Contributions	\$ (1,773)
Membership Program Reserves	<u>\$ (300)</u>
Net Cash Surplus or Deficit	\$ 218



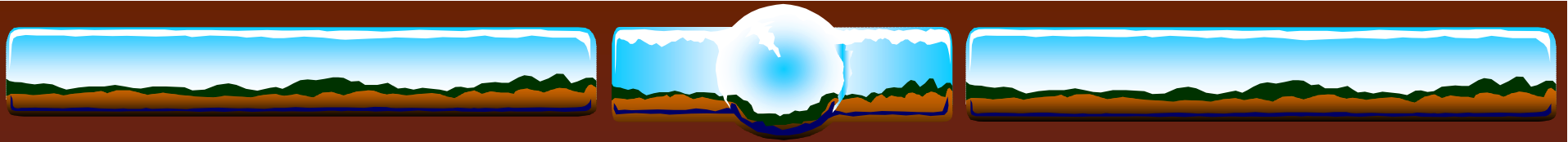
DM 2011 Budget Differential Costs and Dues Impact

	Incremental Costs		Dues Impact
General and Administration			
Organizational Changes	\$ 184		
Membership Department	\$ 200		
Professional Fees	\$ 150		
Fairways Rent and Related Expenses (Net)	\$ 309		
Additional Bad Debts	\$ 785		
Developer Allocation for IT & HR	\$ 100	\$ 1,728	
Facilities			
RWDS Treatment Plant Expense	\$ 100		
Housekeeping-Developer Units	\$ 57		
R.E. Taxes-Lots 1, 10, 19, RL, SCFG	\$ 143		
Capital Leases P & I	\$ 1,496	\$ 1,796	
Reserves			
General Reserves		\$ <u>450</u>	
Total Operating			
Changes		\$ 3,974	
Financial			
Loan – P & I		\$ 4,550	
Membership Programs		\$ <u>660</u>	
Total Cost Increase from			
Differences		\$ 9,184	Equals \$ 338
			<u>\$ 850</u>
			\$ 1,188



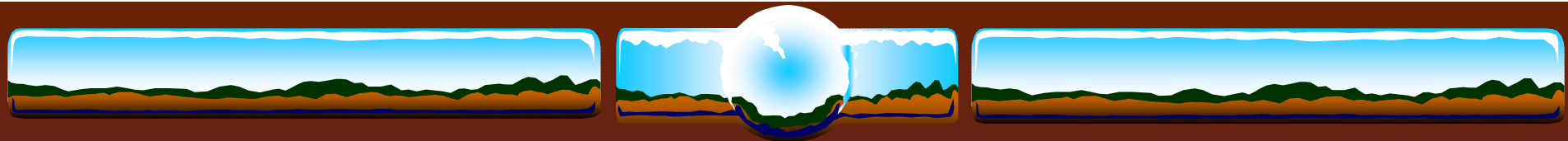
Monthly Dues Comparison

- The Vintage Club – Indian Well \$2,483
- Big Horn – Palm Desert \$2,450
- The Reserve – Indian Wells \$2,333
- The Quarry – La Quinta \$1,550
- Estancia – Scottsdale \$1,250
- Silverleaf – Scottsdale \$1,250
- Desert Mountain – Scottsdale \$1,190
- Mirabel \$1,150
- Desert Highlands – Scottsdale \$1,007
- DC Ranch – Scottsdale \$ 950



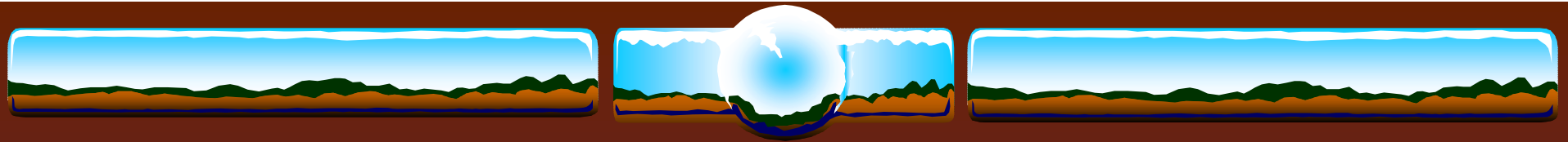
Financial Summary

- 2011 monthly dues to be established at \$1,190
- 2011 F& B minimum remains at \$1,500
- 2011 budget represents a zero based approach
- Budget includes reasonable level of reserves
- Establish restricted “sinking funds” for debt and capex
- Budget includes servicing of all debt obligations



Club Mortgage Financing

Presenter:
Paul Wutz



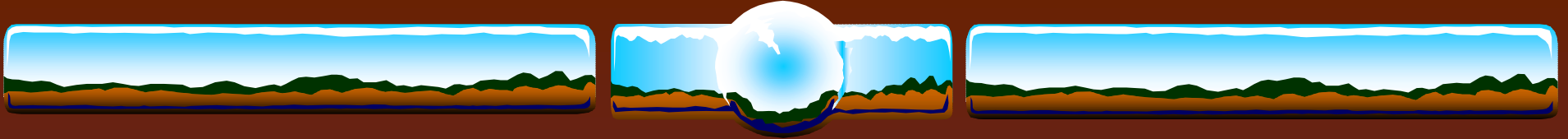
Club Turnover Private Financing – Why?

- The original negotiated Global Transaction included a provision for Crescent to hold a mortgage on the club
- Term was fifteen years @ 6.5%
- Loan covenants demanded by Crescent were overreaching, unreasonable and, ultimately, unacceptable
- Negotiated all cash purchase resulted in a price reduction of \$4.5 mm from \$78.0 mm to \$73.5 mm



Private Financing – cont'd.

- Crescent unacceptable financing requirements would have prevented the global transaction from occurring.
- Time frame between signed Letter of Intent (10/17/2010) and Closing date (12/31/2010) not sufficient to obtain traditional commercial lending (normally 90 – 120 days)
- Interim private financing by DM members was the only feasible solution to allow us to continue forward with the Global Transaction
- This alternative gives the club the benefit of sufficient time to seek out the best commercial financing options at the most favorable rates & terms



Crescent's Continued Control What That Would Mean

- Rejection of mortgage terms jeopardized the Global Transaction and would have resulted in a return to the Scheduled Turnover
- Scheduled turnover would have resulted in paying more for fewer assets
- Scheduled Turnover would have resulted in Crescent continuing to impact clubs economics & governance
- Bylaws could not be changed without their consent
- 'Member contribution' (i.e. initiation fee) could not be adjusted without their consent



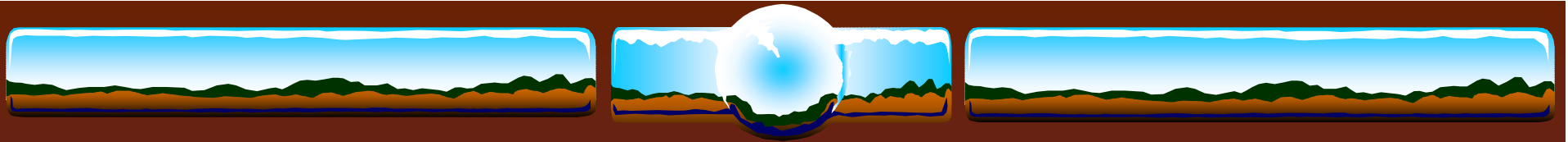
Funding Analysis (MM)

• Base Member Assessment (\$16,500 x 1,800 members)	\$ 29.70
• Forecasted Additional Member Payments (\$38,250 x 200 members)	<u>\$ 7.65</u>
	Subtotal
	\$ 37.35
• Less forecasted non-payers (200 x \$16,500 = \$3.3 mm)	\$ (3.30)
• Less up to 300 financed assessments (150 x \$10,000 = \$1.5 mm)	<u>\$ (1.50)</u>
Estimated Member Assessments Collected	\$ 32.55
Total Purchase Price & Misc. Expenses	<u>\$ (76.70)</u>
Financing Requirement	\$ (44.15)



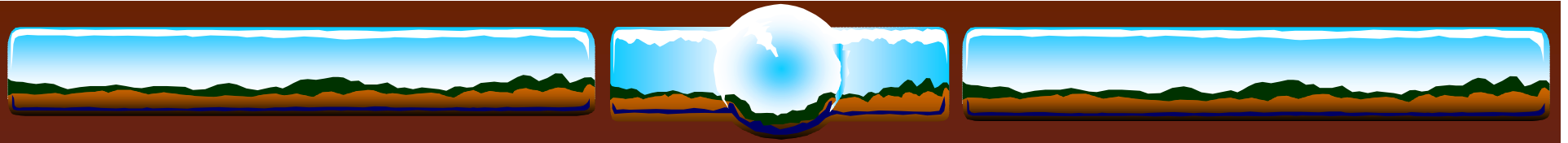
Funding Requirement cont'd.

- Required financing: \$45 mm
- Member Lending Group (LLC) has stepped forward and will provide interim financing (bridge loan) until traditional commercial lending is obtained
- Participation still available to any interested member
- Minimum participation amount is \$1 mm
- Over subscription will result in a lottery or proportional participation by all LLC members



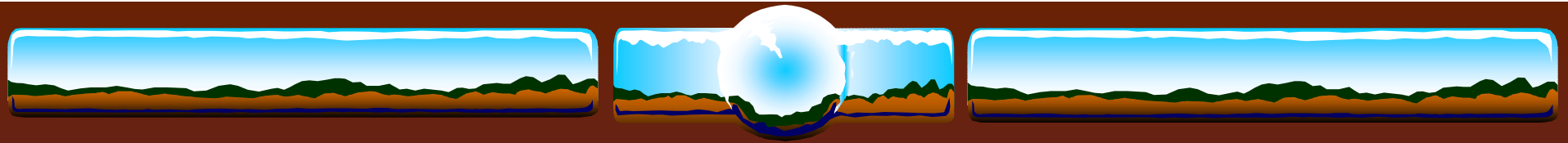
Funding Requirement cont'd.

- Identical terms (6.5%) without the restrictive and overreaching covenants imposed by Crescent
- Restrictive language on undue influence will be included in both articles of incorporation and loan document
- As soon as satisfactory commercial lending is obtained bridge loan will be retired



Review of New Bylaws

Presenter:
Roger Dunbar



New Bylaw Objectives

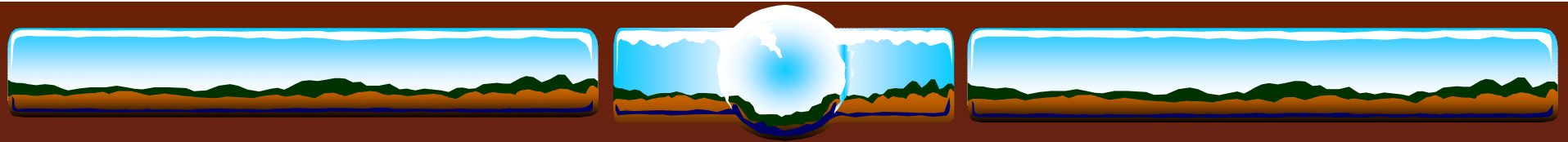
- Eliminate Developer control and bias
- Reduce risk of “prisoner of our own bylaws”
- Members control major policies and operations
- Increased Member benefits



Review of Bylaws cont'd. Eliminate Developer Control & Bias

- Bylaws and amendments
 - Operations
 - Membership pricing
 - Monthly Dues
 - Types of memberships

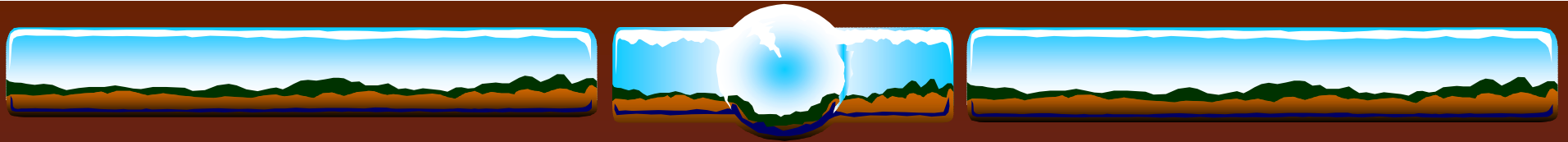
(Certain existing non-equity Memberships that were issued by the developer prior to turnover will be honored pursuant to the terms of their new Membership Agreement with the member-owned Club)



Review of Bylaws cont'd.

Reduce risk of becoming a “prisoner of our own bylaws”

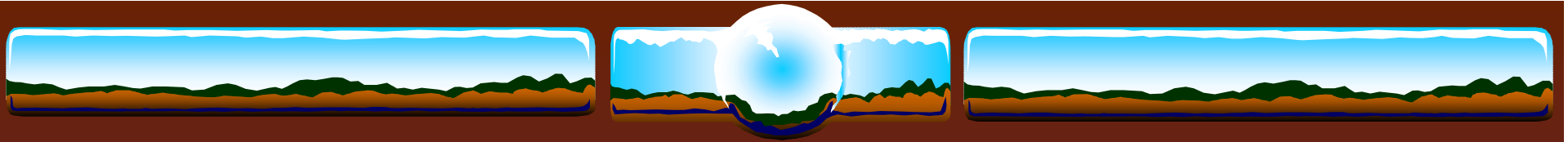
- Lessons learned from AB/HOA visits and other “Best Practices”
- Eliminate or move excessive detail to Member Rules and Regulations (e.g. garbage cans, tee times)
- Delegate day to day operational matters to Club Management and the Governing Board



Review of Bylaws cont'd. Members control major decisions

“Major Decisions” requiring approval by a majority vote of the membership:

- Capital reserve fund in excess of 5% of Club's annual gross revenues (estimated approximately \$2MM)
- Capital reserve fund can not be used to offset operating shortfalls
- Expenditures for capital improvements and expanded facilities > 5% of club's gross revenues (approximately \$2 MM)



Review of Bylaws cont'd.

Members Control Major Decisions cont'd.

- Sale of Club Facilities
- Amendments to Bylaws
- Change in or addition to membership categories that would result in an increase in the number of equity members above 2,375



Review of Bylaws cont'd.

Miscellaneous

- Transfer fees > of \$65K or 20% of then membership price
- Marital status policies unchanged
- Voting rights unchanged
- All Equity Memberships have Immediate Family Privileges



Review of Bylaws cont'd.

Increased Member benefits

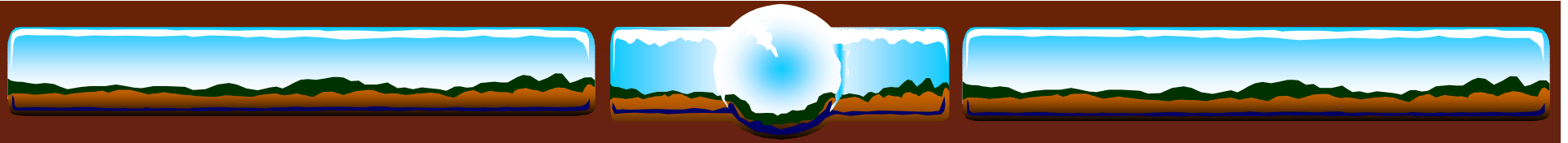
- Legacy Transfers - may transfer to Spouse, adult child or grandchild one time without transfer fees
- Inheritability - transfer to surviving spouse or placed on the Surrender list with no dues payment
- Disciplinary Committee - members only with oversight by the Governing Board
- Nominating Committee for Governing Board elections will be comprised of 4 Board members and 3 non-Board Equity Members in good standing
- Surrender List changed permanently from 1 of 5 to 1 of 4 and temporarily to 1 of 2
- Additional Surrender List market-based program to be developed



Review of Bylaws cont'd.

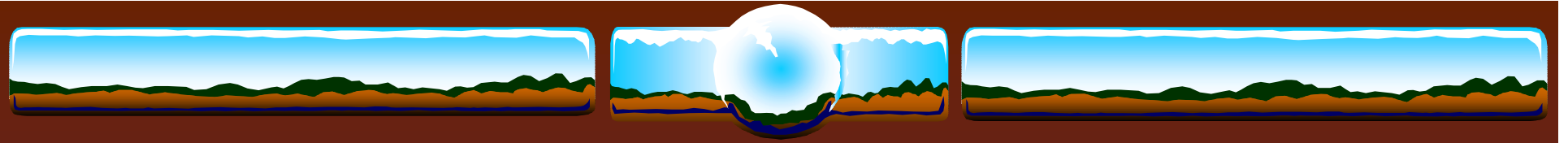
What's Next ?

- Each Deferred Equity Member voting package includes a hard-copy summary of the new Bylaws and also a CD containing the complete document (.pdf file)
- Review the Bylaws summary to familiarize yourself with them and, if desired, read all 30+ pages of the complete document included on the CD
- Submit any questions/comments to the Advisory Board (advisoryboard@desertmt.com)
- Vote YES – Secure Your Future!



Next Town Hall Meeting

Monday, December 10th



Time for Q & A