Hon. Randall Hall
City Of Ketchum
Post Office Box 2315
Ketchum, Idaho 83340

Dear Mayor Hall:

This will serve as a follow up to several conversations between the City of Ketchum and DDRM which have occurred recently because of the circumstances beyond Helios' control which are impeding progress with the Warm Springs Resort project. As a result of those conversations, it was suggested that Helios request a specific extension of the deadlines in the Annexation and Development Agreement based on the aforementioned conditions. In accordance with that suggestion, Helios is hereby requesting a 12 month extension of its obligations under the said Development Agreement.

Please understand that no one wants to execute this project more than Helios. This letter will explain that we have been extremely active in the pursuit of creating a feasible project with adequate financing for the initial phases.

Several months ago, the WSR team began an extensive feasibility analysis of the proposed project as entitled. Keep in mind that WSR is quite different than the two downtown hotel projects in that it is a true master planned mixed-use project with a substantial amount of for-sale real estate product in addition to the resort hotel. It is also a much larger project which has significant resort amenities. Along with specific required amenities, the WSR Development Agreement invokes substantive public obligations, some of which are not invoked on the other projects.

This feasibility analysis, which will not be completed for several months, includes the following items:

A. An assessment of the market for the end real estate products. This includes pricing and absorption assessments. Even though the average projected pricing is well over $1000 per square foot, we feel it is defensible. This analysis included information gathered from a successful soft opening of the project in conjunction with the Sun Valley Center for the Arts Wine Auction this past summer. We continue to get feedback on this issue.

B. Detailed costing analysis from 3 different sources: Okland Construction, Layton Construction and Hill International. We had anticipated significant cost reductions due to the economic stress; however, these costs were significantly higher than those in our original budgets during the entitlement phase. The cost of the infrastructure and amenities is a surprisingly large part of this difference.

C. An assessment of the realistic timing of the project, especially in light of the FEMA issues causing almost a year's delay, capital market conditions, real estate market conditions, and a very difficult resort hotel operational environment. In effect, the project cost increases due to these factors are a significant cost that can't be ignored. Another element of this cost is created by the market circumstances. A much higher number of phases is required because of more restricted absorption. This creates a large inefficiency and attendant cost because of lost residential/hotel room space at each phase connection. It also increases construction costs because of general conditions and mobilization inefficiencies each time a new phase is constructed. The financial markets seem to want about 5-6 phases instead of the 3 original phases contemplated in the Development Agreement.

D. A comprehensive investigation by DDRM of institutional investors and their propensity to invest in resort mixed use projects. This was not done specifically for WSR, but for resort projects in general. It was focused on institutional investors in North America and did not include European nor Asian investors.

As a result of this analysis, it was clear that regardless of the phasing programs we identified, the overall profitability of the project was not adequate to incentify additional investment from institutional investors or to secure a loan, if such financing were available in the capital markets. Even with a re-pricing of the land to post recession values, the project was not feasible.

Understanding that there is no way we can raise pricing of the real estate to increase the profitability of the project, it has become clear that we have to focus on cost reductions and redesign. Against this background we initiated the September 8, 2010 letter informing the City that until the delays due to the actions of FEMA, the market and lack of credit facilities improved we would not be able to proceed with the project.

In the meantime, our major focus has been on a conceptual value engineering and redesign process to substantially reduce costs. This has been a serious effort over the last 75 days. It is the only major way we can improve project feasibility under the current circumstances. To date, several potential changes to the development program have been identified:

1. Golf Course Location. The Golf course will be located all in the northwest portion of the project. This trims costs in several line items including the elimination of the golf course service road over the portion of the mountain that extends to the stream (which was environmentally questionable, unsightly and very costly).

2. Additional Recreation. This frees up space for additional recreational uses including four tennis courts, a fly fishing shack, and a children's play fort on the southeast portion of the property. This should allow us to eliminate or reduce the recreational fee obligation in the Development Agreement.

3. Parking Design Changes. The focus of these changes is to decrease the amount of underground parking in the core hotel area, particularly in locations close to Warm

Springs Road, thereby decreasing the cost of excavation, retainage, and attendant footings, foundations, shell and core costs. In order to do this, we have looked at many alternatives including a possible structure on the Workforce Housing site, along with relocated hotel public space.

4. Redesigned Core Hotel Public Space. These efficient improvements in the public space configurations would provide the following:

   a. Lower costs because of less expensive parking (as mentioned above);

   b. More efficient and larger meeting space, in phases. This is a strong economic element in the long run which will benefit the property and the City.

   c. More efficient spa space allowing slightly more rooms and residential real estate of high value;

   d. Better Sellable/Rentable to Public Space ratio.

This is an ongoing process with a lot of work to do in order properly analyze and cost these options. We are not certain that these changes will provide the level of feasibility acceptable to the financial markets. We are hopeful that the foregoing modifications to the project may be acceptable to the City. Helios is, however, not yet prepared to submit any formal application for a modification of the project and therefore, without waiving any rights, requests the City agree to a 12 month extension of the performance deadlines contained in the aforementioned Development Agreement to allow for the additional time needed to complete the aforementioned feasibility analysis and redesign.

Thank you for your anticipated continued cooperation. Please let us know if there will be a hearing on our request so that we may arrange to attend.

Helios Development, LLC, a Delaware limited liability company

By: Zon Development, LLC, a Delaware limited liability company, its managing member

By: ______________________
Anton Vonk, Managing Member

Cc: S. Castleton
E. Lawson
L. Horowitz