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Owners File Suit Against Raintree Resorts and Starwood Over Fraud in Los Cabos Villas Project

(September 11, 2009) – A group of over 150 purchasers of a fractional ownership villa project in Los Cabos, Mexico have united against Raintree Resorts and Starwood Vacation Ownership after these and related subsidiary entities defaulted on their obligation to build the property yet failed to return owners' funds.

After their initial efforts to resolve matters with Raintree and Starwood failed, the group retained the legal representation of Chicago attorney David A. Novoselsky of the Novoselsky Law Offices. Novoselsky's attempts to elicit reasonable offers from Raintree and Starwood also failed. He then filed a mass tort claim on behalf of his clients on August 25, 2009 in the Circuit Court of Cook County, Illinois. The owners group is seeking full and immediate reimbursement of their full purchase price plus interest, legal fees, and \$75 million in punitive damages.

By way of background, approximately three hundred vacation seekers purchased their deeded fractional ownership interests in what was known as the Grand Regina Los Cabos Villas as early as 2002 and as recently as 2007 from CR Resorts, a subsidiary of Houston-based Raintree Resorts. The property, adjacent to Starwood's Westin Resort & Spa Los Cabos, was marketed by a well-spoken sales force armed with glossy brochures, a perfectly appointed model villa, and detailed architectural models of the entire property as envisioned upon completion. Amenities, to be jointly shared with the previously marketed Grand Regina Private Resort Club, were promised to include specialty restaurants, three private pools, a spa and fitness center, 24-hour concierge and security, and other upscale niceties. More than \$25 million was collected from the group of owners.

The owners remained patient, as various construction delays were announced. Finally, in late 2006, after a series of long restructuring negotiations initiated in 2004, owners were notified that CR Resorts and Raintree were selling the Villas land and development rights to Starwood. As an element of the restructuring, Starwood agreed to develop the 64 Grand Regina Villas units as part of its Starwood Vacation Ownership Club (SVO) program. The conveyance of the Villas land included the obligation for Starwood to provide usage rights to Villas owners at such time as the Villas would be built by Starwood and further provided that the Villas owners could join, at their option, the SVO program.

However, the comfort that Starwood's participation provided to anxious owners was illusory and short-lived when Starwood announced its intention not to develop the Villas. On February 9, 2009, Villas owners received individual "Refund Proposals" offering two options: (A) a cash refund of 35% of the price paid, distributed in installments over four years commencing on October 1, 2009, with the balance in Raintree Vacation Club (RVC) "points," or (B) the ability

to trade Villas ownership interest for an RVC membership at a 40% discount to the significantly higher current price list.

After many owners balked at this paltry offer and with the fear of potential lawsuits, an amended offer was announced to Villas owners on February 19, 2009. In addition to offering a lower cash refund of 25%, but with a faster repayment schedule, the amendment proposed that owners could retain the right to their Villas ownership, with the hope that development would eventually commence in a more hospitable economic climate. The latter stipulation was later rescinded. No offers to date have included any contributions from Starwood.

In addition to a failed promise to develop the Villas, owners are now further enraged by other information that has recently come to light indicating that marketing and sales of Villa interests took place for many years during which Raintree and Starwood knew the project was financially distressed. None of this information was ever disclosed to potential buyers.

Typically, proceeds of pre-construction real estate sales go into an escrow account to fund future construction. However, that was not the case here. On a March 26, 2009 phone call, Raintree's CEO Doug Bech admitted to a group of Villa owners that, in addition to paying commissions to Villa sales staff, a large portion of the proceeds from Villa sales went to pay interest on their debt and to pay down \$20mm in principal on Notes held by White Plains, NY-based Starwood and Los Angeles, CA-based Trust Company of the West (TCW).

"This is outrageous," says owner Dr. Fred Dieterle. "Raintree apparently collected money from us and proceeded to pay it to other investors, namely their debt holders Starwood and TCW."

Interestingly, while Raintree has offered to return only a fraction of the Villa owners' money, claiming that its CR Resorts subsidiary only has a small amount of cash and remaining accounts receivables, Raintree, as a whole, continues to do extremely well. In recent press releases, Raintree has announced the purchase of two new properties and 2008 sales numbers that beat targets by \$8mm. Bech stated in one press release that the new Phoenix property represents "... over \$100 million in future timeshare sales."

Starwood too recently beat financial expectations, reporting second quarter 2009 net income of \$134 million, or 74 cents a share, up from \$105 million, or 56 cents a share, in the same period the prior year. Excluding special items, earnings from continuing operations were 22 cents a share, well above consensus analyst estimates of 17 cents per share.

Starwood Hotels & Resorts Worldwide, Inc. is an owner, operator and franchisor of hotels and resorts, including St. Regis®, The Luxury Collection®, Sheraton®, Westin®, Four Points® by Sheraton, W®, Le Méridien®, AloftSM and ElementSM. Raintree Resorts is a privately held company that operates multi-resort timeshare and Private Residence Club accommodations in the United States, Mexico, and Canada.

The villa owners group hopes that by sharing their unfortunate experience that other potential investors may be spared from the same treatment, broken promises, and potential financial losses they have endured.

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