

An aerial photograph of a golf course set against a backdrop of rugged, mountainous terrain. The golf course features several green fairways, sand traps, and a winding path. The surrounding landscape is a mix of green grass, brown earth, and dense evergreen forests. In the distance, large, rocky mountains rise under a clear sky.

TROUBLE on MILLIONAIRE MOUNTAIN



The Yellowstone Club in Montana is where grizzlies and Gateses play. Investor Greg LeMond, winner of the Tour de France, says founder Tim Blixseth has cheated him out of millions.

By Anthony Effinger

◆ Tim Blixseth, a rags-to-riches timber baron, likes the good things in life, and he likes having them to himself. He lives on a private 18-hole golf course near Palm Springs, California. He also controls a ski resort in Montana called the Yellowstone Club that he shares with a hand-picked group including Microsoft Corp. chairman Bill Gates.

The mountain has 13 lifts. Trail names include Learjet Glades and Ebitda, which is Wall Street shorthand for earnings before interest, taxes, depreciation and amortization. Members can play golf and fish in the Gallatin, a river featured in the Robert Redford film *A River Runs Through It*. Security is run by Bruce Bales, a U.S. Secret Service veteran. Bales's new title: director of privacy.

Now, a feud has broken out up on Blixseth's mountain. Yellowstone Club member Greg LeMond, the first American to win the Tour de France, says Blixseth, 56, has cheated him

Big sky country: The Yellowstone Club is one of three ski areas near Lone Mountain, an 11,166-foot peak in Montana. Members include former U.S. Vice President Dan Quayle.

For \$3 million plus annual dues of \$37,500, members will get to use the Yellowstone Club and other swank spots.

out of millions of dollars. LeMond, 45, an early investor in two limited liability companies that control the Yellowstone Club, sued Blixseth Group Inc., Blixseth's company, for breach of contract in May. LeMond alleges Blixseth sought to buy out LeMond, LeMond's in-laws and another investor at a below-market rate and then pocketed \$209 million of a \$375 million loan to the club from Credit Suisse Group as a cash payment. LeMond and the other plaintiffs say they got none of that payment, which was owed to them as investors.

"He tried to buy us out on the cheap," LeMond says. He filed his complaint on May 31 in Montana's Fifth Judicial District Court in Virginia City.

Blixseth says LeMond is trying to profit from Blixseth's hard work. "He's an aging athlete whose income-producing ability



Club founder **Blixseth** got his start buying and selling parcels of timberland.

Members only

Members of Yellowstone Club World can go to these spots, plus another one that's secret.

has been usurped by Lance Armstrong," Blixseth says in a telephone interview from his house in Rancho Mirage, California. "He's probably never made an investment this good in his life." Armstrong won the Tour de France seven times.

In an answer to LeMond's complaint, Blixseth denies he took a dividend from the Credit Suisse money. He countersued LeMond for breach of contract and for trying to use the court for wrongful financial gain.

Even as tempers flare in Montana, Blixseth is going global with a new project called Yellowstone Club World, one of about 25 so-called destination clubs that have sprung up in the past five years to serve the wealthy as they get wealthier. For \$3 million plus annual dues of \$37,500, members will get to use the Yellowstone Club and nine other swank spots that Blixseth is developing. So far, he's got a golf resort on the Pacific coast of Mexico, a medieval chateau in France and a 30,000-square-foot (2,800-square-meter) mansion on a private island in Turks and Caicos.

It can be a tough business. The original destination club, Tanner & Haley Resorts of Westport, Connecticut, went bankrupt in July. It blamed its failure on stiff competition and the club's eagerness to please members by renting high-priced houses for them if the club's own properties weren't available. Tanner & Haley's 874 members paid as much as \$1.3 million each for memberships, an amount that was supposed to be refundable if they chose to leave the club. Now, members form a line of creditors who are seeking money.

Havens Inc., an Atlanta-based club with houses in Telluride, Colorado, and Punta Esmeralda, Mexico, is also struggling. The company had a hard time raising money to buy properties, co-founder Alex Cole says. He and partner Dejan Bucevski recruited Andy MacLellan, a veteran of Westin Hotels & Resorts, as chief executive in February to help raise money. MacLellan left weeks later. "He wasn't the right fit," Cole, 32, says. MacLellan couldn't be reached for comment. Cole says he's considering a merger with another club.

Havens requires a \$250,000 deposit, which Cole says is 80 percent refundable. Members were in the dark as of September. "At this point, I'm sitting here scratching my head," says member Jerome Zeldis, chief medical officer at Summit, New Jersey-based biotechnology company Celgene Corp. "Hopefully, Havens won't go down the tubes."

Yellowstone Club World is the highest-end destination club in the world, says Jamie Cheng, co-founder of Helium

LOCATION	PROPERTY, AMENITIES	
BIG SKY, MONTANA	Yellowstone Club Private ski area, golf, fishing	
PALM SPRINGS, CALIFORNIA	The Oasis* Golf, horseback riding, spa	
CODY, WYOMING	Buffalo Bill Ranch* Dude ranch	
NEAR MANZANILLO, MEXICO	Tamarindo Golf, spa, private plunge pools	
ST. ANDREWS, SCOTLAND	St. Andrews* Golf, Scottish lodge, stone cottages	
BOUVILLE, FRANCE	Château De Farcheville Moat, Turkish baths, wine cellar, tennis	
TURKS AND CAICOS	Emerald Cay 30,000-sq.-ft. mansion, scuba	
OFFSHORE	Piano Bar Yacht, 157 ft., 12 guests	
	Tooth Fairy Yacht, 147 ft., 14 guests	

*Scheduled for completion in 2008. Source: Yellowstone Club World

Report, a San Francisco-based Web site that tracks the clubs. "It's way over the top," Cheng says.

Members of the Yellowstone Club can upgrade to a Yellowstone Club World membership for an extra \$1.5 million, half the cost of a regular World membership. World members aren't required to buy any real estate as members at the Yellowstone Club in Montana must do. Among those who've joined Bill and Melinda Gates there are former U.S. Vice President Dan Quayle, golfer Annika Sorenstam, News Corp. President Peter Chernin and Mike Markkula, the venture capitalist who backed Apple Computer Inc.

Yellowstone Club, which is just north of Yellowstone National Park, is in one of three ski areas near Lone Mountain, an 11,166-foot (3,403-meter) peak in the Madison Range. The tram at neighboring Big Sky Resort, started by NBC newscaster Chet Huntley in 1973, goes to the top. Now, there are four big developments around the mountain: Big Sky, Moonlight Basin, Spanish Peaks—a development like Blixseth's but less exclusive—and the Yellowstone Club.

Construction in the area is booming as developers like Blixseth race to profit from Montana's popularity among celebrities and the hyperrich. Media mogul Ted Turner's 113,600-acre (46,000-hectare) Flying D Ranch is just to the north. Trucks hauling gravel and lumber roar up the mountain roads from morning to night. Starting at 5 p.m., a continuous line of pickups snakes down to Highway 191, now called the "highway of death" by locals because of the accidents that have come with increased traffic. Moose and elk venture across the higher roads after rush hour.

The resorts cooperate, for the most part. A single ticket is good for skiing at Big Sky and Moonlight Basin. Yellowstone



Greg LeMond, three-time winner of the Tour de France, sued Blixseth for breach of contract. Blixseth says LeMond is trying to profit from Blixseth's hard work.

Club members are welcome to ski into Big Sky where the areas meet if they have a ticket, Big Sky spokesman Dax Schieffer says. A Yellowstone Club guard makes sure no one from Big Sky tries to drop in to the club, though, Schieffer says.

Members, all of whom wish to remain anonymous to protect their privacy, say the skiing at the Yellowstone Club is amazing. Fresh snow lasts for days because there are so few skiers, while places like Vail, Colorado, get tracked up in hours. In the early days, a member could call after a snowfall and have a run roped off and saved.

In addition to Montana and the other posh locales, Yellowstone Club World has two private yachts, *Piano Bar* and *Tooth Fairy*. Four Yellowstone jets whisk members to Blixseth's hideaways. Those aircraft have become another headache for Blixseth. In June, pilot Richard MacArthur sued Blixseth, alleging he was fired from Blixseth's aviation company for piping up about other pilots flying drunk and on drugs. In a complaint filed in California State Superior Court in Riverside County, MacArthur says he complained to Blixseth before being fired without cause. "Pilots flying intoxicated is not a good thing," says MacArthur's lawyer, Steven Bangerter.

Blixseth says MacArthur was fired for reckless flying. "He turned the wrong way one day in Boise, Idaho, and damn near ran into the mountains," Blixseth says. Bangerter says MacArthur flew into Boise twice in 2005 and never had any problems.

Blixseth is an unlikely magnate. The son of Norwegian immigrants, he grew up poor in Roseburg, Oregon, on the rain-soaked west side of the Cascade Range, and worked in local lumber mills in high school. He says he got a taste for deal making when he bought three donkeys for \$75 and resold them for \$225. Once he had a nest egg, he started buying and selling small parcels of timberland.

"He's the world's best deal maker," says Allyn Ford, president

of Roseburg Forest Products Co., who bought land from Blixseth. "He's able to elicit people's trust."

After swapping land, Blixseth got into the lumber business directly, owning sawmills. His run ended in the 1980s, when interest rates soared and lumber prices tumbled. In 1986, he and his wife, Edra, declared bankruptcy. They listed \$15.4 million in debts and \$4,400 of assets, all household items and clothing.

The proceedings turned contentious, and two years later, the trustee for the estate, Eric Roost, sued the Blixseths, alleging that they had failed to report ownership of luxury goods that should have been included in the estate. Among them were a Canadian baby lynx fur coat valued at \$17,000; a natural-white, full-length mink coat valued at \$8,995; a 14-karat gold ring with a 1.198-carat diamond valued at

\$10,800; and a second gold ring with a 1.27-carat diamond valued at \$13,700. Blixseth settled the matter by producing the property and purchasing it from the estate for \$20,300.

While still hashing out his bankruptcy, Blixseth approached Peter Stott, founder of Portland, Oregon-based trucking company Market Transport Ltd., and asked him to put up money for a new timber venture, Stott says. They formed Crown Pacific Ltd. and, in 1988, bought 257,000 acres of timberland in Idaho and Oregon from the late British financier Sir James Goldsmith for \$67.5 million.

The pair accumulated more land after that and, with timber prices rising again, profited by logging some tracts

A guard makes sure outsiders don't ski into Blixseth's private domain, where the fresh powder often lasts for days.

aggressively and by selling smaller ones. "We hit the market at a very good time," Stott says. He and partner Roger Krage bought Blixseth's stake in 1991.

The following year, Blixseth formed Big Sky Lumber Co. and bought 164,000 acres from Plum Creek Timber Co. in southwestern Montana. The price was about \$25 million, Blixseth says.

Big Sky Lumber set off alarms when it subdivided the timberland into smaller parcels to sell as home sites, according to Bob Dennee, a staff officer with the U.S. Forest Service in Bozeman, Montana.

The Forest Service was keen to get Big Sky Lumber's lands around the Taylor Fork of the Gallatin, just north of Yellowstone National Park. Elk calve there and endangered grizzly bears feed on the offspring. Building houses and roads there would have compromised the bears' hunting grounds. "It's the most productive grizzly bear habitat outside of Yellowstone Park," Dennee, 58, says.

To get Big Sky Lumber out of the Taylor Fork, the Forest Service, directed by the U.S. Congress, negotiated land swaps with Blixseth from 1993 to '98. Some of the land that

'Greg LeMond had a long history of breaking the rules,' Blixseth says. He suspended LeMond's membership.

Blixseth got became skiing terrain at the Yellowstone Club.

Though many environmentalists supported the land exchanges, others criticized them, saying that Blixseth's allies in Congress helped him fast track the deals. Often, land swaps are handled internally by federal agencies like the Forest Service, which require greater environmental review, formal public comment and the right to appeal the trades, says Janine Blaeloch, director of the Western Lands Project, a Seattle-based organization that tracks land swaps. Involvement by Congress undercut the process in the Gallatin, she says.

The Forest Service also purchased land from Blixseth outright. The agency and several partners paid \$16 million for 8,100 acres around Porcupine Creek that Blixseth had subdivided. By selling 5 percent of the land he got from Plum Creek, Blixseth recouped 64 percent of his money. "He made one heck of a good investment," Dennee says.

Blixseth named his private Rancho Mirage golf course Porcupine Creek, after the sale, he says.

Blixseth got off to a rocky start in Montana. Starting in 1997, workers building the Yellowstone Club discharged rock and dirt into Gallatin tributaries without a proper permit, according to a complaint filed in federal district court in Billings, Montana, by the U.S. attorney's office there. The club graded and filled streams and wetlands without permits, drawing 60 violations of the Clean Water Act.

Ski areas operating on public lands, as many in the Western U.S. do, cut only the trees to make their

runs, leaving plants in place to prevent erosion. Blixseth scraped all the vegetation to alter the pitch and fall line of the runs, says Kris Knutson, a scientist with the U.S. Environmental Protection Agency. "They bulldozed all the ski runs," Knutson says. One, American Spirit, had an erosion gully 6 feet deep, she says.

The EPA and the U.S. Justice Department settled with the Yellowstone Club in 2004. The club agreed to pay a \$1.8 million civil penalty without admitting guilt. It was the largest fine ever won by the EPA for the unauthorized discharge of dredged material.

LeMond says in his complaint against Blixseth that he found out about the Yellowstone Club while in Big Sky looking for property. After his first visit, he called his in-laws, David and Sacia Morris, and his friend Michael Snow and told them they should see the place. Blixseth sent a jet to pick them up. The group committed to invest, and LeMond's friend Jorge Jasson joined them, the complaint says. Jasson, 47, was head of emerging-markets trading at JPMorgan Chase & Co. until 2002.

Each of the five invested \$750,000 and got a 1 percent stake in the two limited liability companies that own the club: Yellowstone Development LLC and Yellowstone Mountain Club LLC. The LLCs are majority owned by Blixseth Group, according to the complaint. Blixseth Group is solely owned by Blixseth, according to his lawyer, Michael Doyle, in Eugene, Oregon. LeMond and his friends all built houses at the club, too. Things went well in the early years, except that annual tax information was almost always late and often restated, according to LeMond's complaint. Then, on May 25, 2005, the group got letters from Blixseth in which he offered to buy out their stakes to "do some estate planning as well as involve [his] children in ownership of the club." Blixseth offered each investor \$1.25 million in cash plus one new lot at the club, which he valued at \$2 million, the complaint says.

The offer took LeMond and the others by surprise. Jasson asked for more information to evaluate it. In an e-mail, Blixseth said, "The valuation is not something that one can accurately calculate," according to the complaint.

Then, in August, the group read a news report saying that

Yellowstone Club had secured a \$230 million loan, arranged by Credit Suisse, that it would use to make a cash payment to Yellowstone Club's owners. Based on the report, LeMond and his group expected to receive \$2.3 million for each 1 percent stake, they say.

Jasson tried several more times to meet with Blixseth, according to the complaint. LeMond, too, kept trying to get information. He e-mailed the Yellowstone LLCs' accountant, George Mack, several times and asked for financial statements for 1999 through 2005, to no avail. He also asked for the

Private—and pricey

Yellowstone Club World is by far the most expensive destination club.

Club	High-end plan membership deposit
Yellowstone Club World	\$3,000,000
Solstice	1,550,000
Tanner & Haley*	1,300,000
Parallel	625,000
Exclusive Resorts	425,000
Private Escapes	350,000
Quintess	345,000

*Bankrupt. Source: Helium Report, Clubs

appraisal that Blixseth had used to get the Credit Suisse loan. That appraisal, LeMond claims, valued the club's unsold property at about \$1.16 billion, making each of the plaintiffs' 1 percent stakes worth \$11.6 million.

Blixseth and his team made a presentation to investors at the Yellowstone Club on Sept. 7 and 8, 2005, LeMond says in his complaint. Credit Suisse said part of the loan would be used to make a return-of-capital payment to investors, according to the complaint. The Yellowstone LLCs secured a larger-than-planned \$375 million loan, and Blixseth Group kept \$209 million of it. Credit Suisse spokesman Pen Pendleton declined to comment.

In November, Jasson and LeMond were still trying to get financial information to value their stakes, the complaint says. On Nov. 14, Mack e-mailed LeMond and Jasson and told them that Blixseth had decided to withdraw his offer to buy them out.

LeMond filed his lawsuit on May 31, 2006, alleging that Blixseth breached his contract by not sharing the Credit Suisse money with eligible shareholders and for failing to provide them with financial information.

Blixseth says he expects to win in court because the \$209 million was a loan from the LLCs to Blixseth Group, not a dividend. "It's well documented to be a loan," he says. Blixseth Group has been paying interest to the LLCs, he says, and because it was a loan, LeMond isn't entitled to any



Out West: The Yellowstone Club's lodge reflects a drive to lure the hyper-rich to Montana.

dividend payment. "It's strictly blackmail," Blixseth says. "He's trying to extract a lot of money, and he's not owed a lot of money."

LeMond says such a loan would violate the LLCs' operating agreements. A month after LeMond sued, Yellowstone Club Vice President of Operations William Griffon wrote to LeMond and Jasson and told them the club had suspended their memberships because their lawsuit was "incompatible with the Club's objective of fostering harmonious relationships between the Club and its members," according to a section of the letter quoted by LeMond in court documents.

"Greg LeMond had a long history of breaking the rules," Blixseth says. "That will come out in court."

On July 13, LeMond and the other plaintiffs sought a preliminary injunction getting their memberships reinstated. Judge Loren Tucker granted the injunction two months later.

Hank Kashiwa, director of marketing and a former professional ski racer, says Yellowstone Club is thriving. It's adding 50 to 60 members a year and is about a third of its way toward its target of 864 property owners.

One member, who asked not to be identified, says he hopes the dispute with LeMond goes away. Otherwise, the troubles in Blixseth's private paradise may have only just begun. ▶

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BLOOMBERG TOOLS

Earth Moving in Big Sky

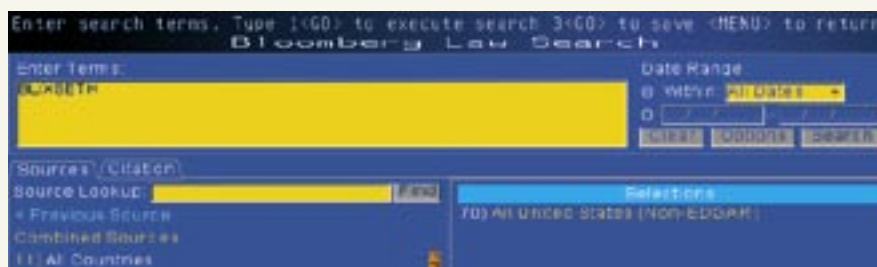
In 2004, the U.S. attorney in Billings, Montana, reached a settlement with a company owned by Tim Blixseth over environmental violations during construction at the Yellowstone Club in Big Sky. The U.S. said that the company discharged fill material into wetlands and other waters in violation of the Clean Water Act, a federal law governing water pollution.

Under the settlement, the company agreed to pay a civil penalty of \$1.8 million.

You can use the Bloomberg Law Search (BLS) function to see the docket in the case. Type BLS <Go>, and click on Combined Sources under the Sources heading. Next, click on

All United States (Non-EDGAR) so that it appears on the right side of the screen under Selections. Tab in to the ENTER TERMS field, enter *BLIXSETH*, as shown below, and click on the Search button. In the list of results, click on the case titled *USA v. Yellowstone Mtn Club* to see the docket for the case.

JON ASMUNDSSON



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