

STATE OF COLORADO

**Division of Securities
Department of Regulatory Agencies**

1560 Broadway, Suite 900
Denver, CO 80202
Phone: (303) 894-2320
Fax: (303) 861-2126
TDD/V: (303) 894-7880

Fred J. Joseph
Securities Commissioner



Bill Ritter, Jr.
Governor

D. Rico Munn
Executive Director

November 13, 2007

VIA FACSIMILE (303) 796-2777 and REGULAR MAIL

Herrick K. Lidstone, Jr., Esq.
Burns, Figa & Will, P.C.
6400 S. Fiddler's Green Circle, Suite 1000
Greenwood Village, CO 80111

**Re: Sale of Notes by Green Gables Country Club
Our File No. A-008-005**

Dear Mr. Lidstone:

We are in receipt of your letter dated October 23, 2007, and your supplemental correspondence dated November 13, 2007, with enclosures, in connection with the above referenced matter. On behalf of the "Club," you have requested an interpretive opinion from the staff of the Colorado Division of Securities ("Staff") regarding the applicability of §11-51-307(1)(g), C.R.S., of the Colorado Securities Act ("Act") to the sale of Notes by the Club. You request that if the Staff is unable to determine that the exemption to registration as provided for in §11-51-307(1)(g) applies, you request the issuance of a discretionary exemption as provided for in §11-51-309, C.R.S., or alternatively, you request the Staff issue a no-action position relative to these issues.

Based on the facts in your letter, we understand that the Club plans to offer interest bearing promissory notes ("Notes") that will be subject to a loan and security agreement ("Loan Agreement") and collateralized by a deed of trust and financing statements encumbering substantially all of the Club's assets as a second mortgage. The Club, a Colorado non-profit corporation, is a social and recreational club, founded in the 1920s, organized and operated for its members. The Club has a 120 acre facility in Lakewood, Colorado, containing a championship golf course, clubhouse, tennis complex, and Junior-Olympic size pool. You represent that because the value of the assets are significantly in excess of the Club's liabilities, the Notes will be fully secured.

The proposed offering of Notes will be accomplished pursuant to a Confidential Information Memorandum containing information about the Club, its management, financial condition, and operations, as well as a detailed description of the risks associated with the offering and the senior indebtedness. The Memorandum will contain

audited financial statements as of the years ended September 30, 2006 and 2005, and, if available, 2007, and more current unaudited financials. The offering will be a minimum subscription of \$1 million and a maximum of \$1.5 million, and be conducted in two phases, with the first phase being a cash offering of \$600,000.00, with phase two, the cash offering of the remaining subscription of between \$400,000 and \$900,000, being conducted only if needed. The proceeds will be used to finance the Club's working capital requirements. The Notes will mature in 2013, subject to two 3 year extensions. The interest, which is a variable rate of 1% below the Wall Street Journal prime rate, will be paid quarterly. The Club anticipates repayment of the Notes will be from improved cash flow and membership fees.

The offering requires the approval of the members of the Club, and only members of the Club who are residents in Colorado will be permitted to purchase the Notes. The offering will be offered and sold in compliance with the Securities and Exchange Commission's Rule 147 for intrastate offerings, and transfer of the Notes will be restricted accordingly and not transferable unless there is compliance with federal and state securities laws. The Club will place the Notes directly and no direct or indirect remuneration will be paid to any person in connection with the offer and sale of the Notes.

The Staff cannot confirm that the offering of the Notes does not involve an offer or sale of a "security" under the Colorado Securities Act. In addition, the Staff cannot confirm the availability of an exemption from registration under § 11-51-307(1)(g) of the Act. But in light of the facts represented, the Staff will not recommend that formal enforcement proceeding be initiated against the Club, or its respective officers, directors, or employees for violation of the registration provisions of the Act relative to the proposed offer.

It should be noted that by this letter, the Staff only expresses its position as to the recommendation of formal enforcement proceedings under the Act and does not purport to express any formal opinion or conclusion. Also, it should be noted that the position taken is done so based on the facts and representations in your letters and the attached documents. Any change in those facts or circumstances described might require a different response.

If there are any questions, please contact the undersigned.

Sincerely,



Gerald Rome

Deputy Securities Commissioner

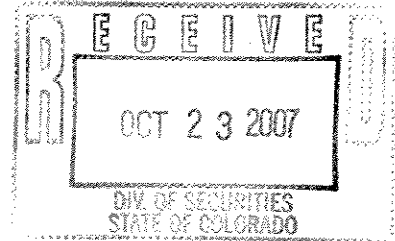


HERRICK K. LIDSTONE, JR.
hklidstone@bfw-law.com

October 23, 2007

Via courier and e-mail

Gerald Rome, Esq.,
Deputy Commissioner of Securities
Division of Securities
Department of Regulatory Agencies
1560 Broadway, Suite 900
Denver, CO 80202



Re: Request for Interpretive Opinion per C.R.S. §11-51-705
Green Gables Country Club (the "Club")

Dear Deputy Commissioner Rome:

This firm represents the Club in connection with a contemplated offering of debt to its Members. In that connection, we seek an interpretive opinion regarding the applicability of the registration requirements under the Colorado Securities Act to the offering under the conditions described. As required by the statute and the Division's rules, enclosed is the \$100 opinion fee which we understand to be non-refundable.

Background

Green Gables Country Club, a Colorado non-profit corporation (the "Club"), is a social and recreational club, founded in the 1920s, organized and operated for the benefit of its members. It is exempt from federal income taxation on corporations pursuant to 26 U.S.C. §501(c)(7) which provides an exemption for "clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

The Board of Directors, through the Club's officers and employees, manages the Club for the benefit of its members. The Club's 120 acre facility in Lakewood, Colorado, contains a first-class championship golf course, spacious clubhouse, tennis complex, Junior-Olympic size pool and borders Ward Lake.

In December 2003, the Club obtained a \$5 million mortgage loan bearing interest at a 5.89% annual rate and payable over 15 years (the "Senior Loan") to finance proposed renovations for the Club's new golf course, halfway house, and

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other improvements. The Club completed those renovations during the 2004 fiscal year, and the principal balance of that loan remaining due as of August 31, 2007 was \$3,905,953.

During fiscal 2007, the Club assumed control of the golf shop and inventory, which required a cash investment of approximately \$175,000.

Through August 31, 2007, the Club spent \$284,000 for additional water rights, capital lease payments, and equipment and improvements, the long-term portion of the Club's admission fee receivables increased \$167,000, and principal payments on Senior Loan totaled \$229,000.

During the next several years, the Club anticipates that it will require additional funds to pay down the Senior Loan, finance admission fees for new members, start new programs, acquire new equipment, and make improvements. The Club has had working capital deficits for the past several years, has been unable to provide for a replacement reserve, and has suffered cash flow shortages. The Club has, in the past, assessed its members for working capital shortages, but this action is frequently counter-productive as members tend to resign from the Club in the face of significant assessments. The Club is seeking this debt financing to avoid the need to assess members in the next several years.

The Proposed Financing

The proposed financing will be accomplished pursuant to a Confidential Information Memorandum (the "Memorandum") containing a substantial amount of information about the Club, its management, financial condition, and operations, as well as a detailed description of the risks associated with the offering and the senior indebtedness. The Memorandum will contain audited financial statements as of the years ended September 30, 2006 and 2005 (or, if available, 2007). The Memorandum will also contain more current unaudited financial statements and a management's discussion.

The Club plans to offer interest-bearing promissory notes ("Notes") that will be subject to a loan and security agreement ("Loan Agreement") and collateralized by a deed of trust and financing statements encumbering (as a second mortgage) substantially all of the Club's assets. The Memorandum will describe the Notes, Loan Agreement, and other financing documents and attach copies of the proposed form of the documents to ensure full disclosure.

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Prior to commencing the offering, the Club will negotiate with its senior lender (holding the first mortgage on the Club's property) and its line of credit lender to ensure that the addition of the member debt does not breach any of the Club's existing covenants to these lenders. Among the likely requirements is that the Club will only be able to pay interest to the Note holders on a quarterly basis provided that the senior loan is current and in good standing and the Club has sufficient operating income to do so.

In each case, these documents are in negotiation.

The Club will not retain a broker-dealer or pay any direct or indirect commission to any person for introducing investors to this proposed debt financing.

Member Approval Requirements

Under the Club's bylaws, members must approve any financing in excess of 25% of the Club's revenues from dues. This financing will exceed that requirement and, therefore, requires member approval. The Club obtained preliminary approval of the members at informational meetings held earlier, but will seek definitive member approval at its annual meeting scheduled for November 12, 2007.

Are Securities Involved?

It is arguable that the offering of debt to members of the Club in the form contemplated does not involve the offering of a security because the debt will be fully secured. (The book value of the Club's assets (based on historical cost accounting principles) well exceeds the Club's liabilities. At August 31, 2007, on an unaudited basis, the net worth of the Company exceeded \$5,800,000. The Club believes, based on the information available to it, that the fair market value of its assets are significantly in excess of the book value of those assets.)

Without admitting that the Notes are in fact securities, the Club is willing to comply with federal and Colorado securities laws. Consequently, the securities can be offered only pursuant to an exemption from registration or a registration statement. Because of the close association between the Club members and the Club itself over a substantial period of time and the detailed information about the Club that the Club regularly provides to its members, we do not believe that the members need the protection of the registration requirements of either federal or Colorado law, as explained below.

The Exemptions

Federal Law. We are of the opinion that (to the extent securities are involved) the offering by the Club will be exempt from registration under federal law by reason of §3(a)(11) of the Securities Act of 1933, commonly referred to as the “*intrastate exemption*,” and Rule 147 thereunder.

- The Club is a Colorado corporation;
- Only members who are resident in Colorado will be permitted to purchase Notes;
- The proceeds will be used in Colorado; and
- The notes will not be transferable other than to persons who are similarly resident of Colorado and members of the Club (and who meet the other suitability requirements), and only upon the Club’s approval.

Colorado Law. Colorado law provides several potentially applicable exemptions. It does provide an exemption from registration for transactions “not involving a public offering” in §11-51-308(1)(i). We note that the notice of the members’ meetings to consider the offering were sent to all members of the Club (approximately 427) including persons who would be considered accredited investors and others who are likely non-accredited investors. These notices were not sent with an intent to induce them to purchase the Notes, but rather to solicit their votes approving the debt financing. The Club recognizes that the distinction is a very close call, and acknowledges that one might interpret the notification to members of the meeting and the contemplated offering to be an “offer to sell” or a solicitation of an “offer to purchase” as defined in §11-51-201(13).

We are of the opinion that (to the extent securities are involved) the exemption from registration provided by §11-51-307(1)(g) should be available to the Club’s proposed debt offering. This section states specifically:

(g) Any security which is issued by any person organized and operated not for private profit but exclusively for religious, educational, benevolent, or charitable purposes or as a chamber of commerce or trade or professional association and which is offered or sold to a bona fide constituent or member of such organization or association, if no direct or indirect commission or remuneration is paid in connection with the offer or sale of such security except to a licensed broker-dealer; or any security which is issued by any cooperative association engaged in the sale or production of electricity and regulated by the public utilities commission of this state.

To establish this exemption requires consideration of the three component parts:

- The issuer must be a “person organized and operated not for private profit but exclusively for religious, educational, benevolent, or charitable” purposes or as a chamber of commerce or trade or professional association
- The security must be “offered or sold to a bona fide constituent or member of such organization or association”
- And there may be “no direct or indirect commission or remuneration [] paid in connection with the offer or sale of such security except to a licensed broker-dealer.”

We have already demonstrated compliance with the second two components of the exemption – the offering will be made only to *bona fide* members and no compensation will be paid to any person for the offering.

The Club is a Benevolent Organization within the meaning of the Statutory Exemption. The only issue as to the applicability of the exemption surrounds the first component. Clearly the Club is not organized for religious, educational, or charitable purposes, although the Club provides components of each.

- The Club provides its members who desire to participate and their guests Passover suppers and monthly Shabbat dinners.
- The Club provides its members and their guests with various educational lectures and other programs; and
- The Club occasionally provides its golf course and other facilities for charitable fundraisers and other events.

My *Funk and Wagnall's* dictionary defines “benevolent” as “disposed to do good; kindly.” There is no second definition. Clearly the goals of the Club are not-for-profit and for the betterment of its members. As noted above, the Club also offers its facilities more broadly to the community. The attachment to this letter was prepared by the Club and sets forth the community and charitable events that took place during 2007. Similar events have occurred in prior years, and the Club expects to continue its community activities in the future. Additionally, the Club’s prospective member application notes: “*Charitable Community, Civic Activities and Financial Gifts: Giving back to society –both of time and money- is a hallmark of the membership of Green Gables. In that spirit, please tell us about you and your spouse’s charitable, civic and community activities in the space provided below.*”

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Charitable activities and community involvement is important to the Club and its Members.

We believe that the intent of the inclusion of the term "benevolent" in the statutory exemption is broader than purely charitable organizations. If so, the word "benevolent" would be redundant with the word "charitable" which immediately follows it. Clearly the Club participates in its community in a benevolent and constructive manner and should be considered "benevolent" within the meaning of the statute.

Furthermore, were that the intent of the legislature, we believe that the legislature would have adopted language closer to the language found in 26 U.S.C. §501(c)(3) which does not use the term "benevolent." If the term "benevolent" is interpreted in its broader sense, it would include a member organization such as the Club.

Alternatively, a Request for Discretionary Exemption. Despite our opinion to the contrary, should the Division not believe that §11-51-307(1)(g) is available to the Club, we hereby ask the Division to provide a discretionary exemption to the Club pursuant to **§11-51-309** which provides as follows:

The securities commissioner may, by rule or order and subject to such terms and conditions as prescribed therein, from time to time add any securities to the securities exempted in section 11-51-307 or add any transactions to the transactions exempted in section 11-51-308, if the securities commissioner finds that the application of sections 11-51-301 and 11-51-305 to such securities or transactions is not necessary in the public interest and for the protection of investors.

We believe that the application of §§11-51-301 and 11-51-305 are, in this case, unnecessary in the public interest or for the protection of investors for several reasons.

- The public is not involved in this offering. Admittedly the securities laws use the term "public" in its broadest scope,¹ but in this case the small segment of the public involves members of one of Denver's pre-eminent

¹ See, for example, *SEC v. Ralston Ralston Purina Co.*, 346 U.S. 119 (1953) where the Court found that an offering to employees of the issuer was a public offering where the individual employees did not meet suitable tests for sophistication, access to information, and bargaining position.

golf clubs which the members have voluntarily joined and have paid substantial sums of money as admission fees, dues, and in payment for golf, food, beverage and merchandise sales, and other services. In some cases these persons have been members for a number of years, and in other cases the memberships have been for shorter periods of time. The one common denominator among all of the members (whether or not meeting the definition of "accredited investor") is that they are wealthy enough to afford membership in a golf club, and they have the degree of sophistication to have developed and maintained that wealth.

- We do not believe that the application of the securities laws is necessary for the protection of the specific investors in question, either, whether accredited or non-accredited. The members are frequently informed about the financial and operational condition of the Club, they have the right to inspect the Club's books and records, and the members meet on a regular basis to elect the Board of Directors and review operational matters.
- Most importantly, the Memorandum will make it very clear that no member is obligated to make any investment in the Notes being offered. Any member can decline to participate and there will be no impact on the person's membership interest or rights as a member of the Club.

It is important to the Club to give all members the opportunity to participate in the debt financing if possible. The Club would prefer not to require that participants in the debt financing only be accredited investors. We note that the "accredited investor" requirement is not a condition of the §11-51-307(1)(g) exemption. On the other hand, if necessary to provide the Commissioner the comfort necessary to ensure that investors are protected, the Club is willing to limit the offering to accredited investors only who are members of the Club and residents of Colorado (and who meet the other suitability standards to be set forth in the Memorandum).

Discussion of Precedent

In the only interpretive opinion in Colorado that we found that addressed the issue of golf clubs issuing securities, the Commissioner took the position that:

[W]ithout taking a position as to whether the memberships in the Club constitute 'securities' pursuant to the Act, the staff will not recommend formal enforcement action to the Securities Commissioner should offers or sales of

the memberships be made without compliance with the securities registration requirements of the Act.²

Neither the request letter nor the staff's response identified the exemption on which the Division relied in granting that golf club's request. Admittedly membership interests in a golf club (even though they can be several tens of thousands of dollars) are different from a promissory note inasmuch as the Note holder expects interest to be paid, while the person purchasing the membership interest expects only to use the Club facilities for the defined cost. Nevertheless, the risks to the member and the note holder (who will in fact be a member also) are similar, and are based on the potential failure of the Club (and other less draconian risk factors). Should the Club fail, the member will lose his or her right to use the Club's facilities (and the amount paid for his or her membership interest) in the same way that the Note holder will lose his or her principal and interest.

We also note that the Commissioner has issued orders under §11-51-309 in cases where the individual investors expected a return on their investment in the nonprofit corporation's activities. In one case involving the Denver Zoological Foundation, the Commissioner granted an exemptive order to the Foundation for soliciting donors to its Pooled Income Fund. In that case, the donors contributed to the Foundation's Pooled Income Fund, but retained an income interest, expecting to receive continuing income from the Fund's investing activities.³ In that opinion letter, the Division did not make a distinction between accredited and non-accredited investors. The staff expressed its willingness to recommend to the Commissioner that it issue an order for the benefit of the Denver Museum of Natural History in another similar pooled income fund case, again without distinguishing between accredited and non-accredited investors.⁴

While it is clear that precedent from other states is not binding on the Division, we believe that it may be useful. In a fairly exhaustive research of other states, we found only a single case similar to that described above for the Club. In

² *No-Action Letter*, Fred J. Joseph, Deputy Securities Commissioner, Colorado Securities Division, Dec. 13, 1996, available in BLUE SKY L. RPT. (CCH) at ¶ 13,646.

³ *Opinion Letter*, Philip A Feigin, Securities Commissioner, Colorado Securities Division, Aug. 4, 1995, available in BLUE SKY L. RPT. (CCH) at ¶ 13,627.

⁴ *Opinion Letter*, Philip A Feigin, Securities Commissioner, Colorado Securities Division, Aug. 4, 1995, available in BLUE SKY L. RPT. (CCH) at ¶ 13,599.

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that case,⁵ Riverhill Country Club proposed the sale of promissory notes to its 632 members who were residents of Texas. These were ten year notes bearing no interest for five years and 3% simple interest thereafter. The notes were to be secured by the Club's property and were being offered pursuant to federal Rule 147. As is the case with the Club, Riverhill Country Club stated that it would place the notes directly, and no direct or indirect remuneration would be paid. Riverhill Country Club stated that it would use the proceeds from the sale of the notes to investors to pay off existing high cost capital leases, provide working capital, and to make capital improvements. In responding to Riverhill's inquiry, the staff of the Texas State Securities Board stated that it would "recommend no action to require registration of the Notes as long as they are structured and sold in accordance with the representations made in your letter."

In a similar case, a country club in Maryland proposed to require its current and new members to purchase membership bonds, and purchasers would also receive a share of the company (the "Land Company") that owned the land which the club occupied. The membership bonds to be offered to and (as a condition of continued membership) purchased by the 440 club members were non-interest bearing, but redeemable by the club at face value (the amount of the investment) after resignation or death of the member. Citing an exemption similar to C.R.S. § 11-51-307(1)(g), the Maryland Securities Commission agreed to take no action to require the registration of the securities.⁶

In a North Carolina case, after finding that membership interests in a non-profit golf club used to fund the purchase of existing facilities and the future development of additional facilities were investment contracts, the Securities Division stated that it was possible the membership interests would qualify for the exemption from registration for securities issued by a nonprofit corporation. The membership interest allowed the members to use the club facilities and have voting rights depending on the level of membership interest. The memberships could only be sold or transferred back to the club, but the club was not obligated to repurchase the membership unless a new individual, approved by the club, was willing to purchase

⁵ *No Action Letter*, Denise Vogt Crawford, Securities Commissioner, David Weaver, General Counsel, Texas State Securities Board, June 30, 2004, available in BLUE SKY L. RPT. (CCH) at ¶ 55,829Z.

⁶ *No Action Letter*, Robert N. McDonald, Securities Commissioner, Maryland Securities Division, June 8, 1995, available in BLUE SKY L. RPT. (CCH) at ¶ 30,589.

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the resigning member's membership. Based on the level of membership purchased by the new member there was a possibility of making a profit when selling the membership back to the club. Citing an exemption similar to C.R.S. § 11-51-307(1)(g), the Securities Division said that if the club that was organized and operated as a nonprofit corporation it would not recommend enforcement action if the securities were offered and sold without registration even though there was the possibility of a profit to the member.⁷

In our research, we did not find any positions inconsistent with the Maryland or Texas no action letters or the position requested in this letter to the Colorado Division of Securities.⁸

Conclusion and Request for Opinion or, In The Alternative, an Order

In conclusion, and on behalf of the Club, we respectfully request your confirmation that the Division will not take any enforcement action if the Club proceeds with its debt offering as outlined above in reliance on the exemption from registration provided in C.R.S. §11-51-307(1)(g).

Alternatively, and if the staff concludes that such exemption is not available in the circumstances outlined above, we respectfully request an order pursuant to C.R.S. §11-51-309 exempting from the registration requirements of C.R.S. §11-51-301 and the filing of sales literature requirements of C.R.S. §11-51-305 the proposed debt offering as outlined above. If the Commissioner believes it to be necessary for the protection of investors, the Club is willing to limit the offering to Club members who

⁷ *No Action Letter*, Stephen M. Wallis, Acting Deputy Securities Administrator, Aug. 10, 1988, available in BLUE SKY L. RPT. (CCH) at ¶ 43,511.

⁸ Our research found other cases with dissimilar facts in that the investments being offered were more in the nature of an assessment than an investment. For example, in Pennsylvania, the Securities Division agreed that it would not recommend any enforcement action where the country club in question proposed to offer and sell "supplemental memberships" to existing and proposed new members "to finance a program of capital improvements." These supplemental memberships would not pay income or dividends. All current and prospective members were required to purchase the supplemental memberships. BLUE SKY L. RPT. (CCH) at ¶ 48,680L. Similarly, the Michigan Division of Securities took a no action position with respect to a sporting club which proposed to begin charging initiation fees to all new members in addition to the annual membership fee. The fees would be used to provide greater operating capital to expand the sporting club. The membership interests gave the members no voting rights or equity in the club and there was no obligation to pay back the initial or annual membership fees. *No Action Letter*, Carl L. Tyson, Director, Corporation and Securities Bureau, Apr. 5, 1996, available in BLUE SKY L. RPT. (CCH) at ¶ 32,647L.

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are accredited investors only as that term is defined in Colorado's Model Accredited Investor Exemption (Rule 51-3.19).

If the staff concludes that the exemption should be available only for accredited investors, the Club also asks for the staff's concurrence that the Club may send the offering documents (with specific language limiting the offering to accredited investors only) to all Members of the Club who are Colorado residents. The Club would like to do so for two reasons:

- It is important to the Club that all Members know the status of the proposed financing and receive information about the proposed financing since each Member has an interest in the success of the financing; and
- It would be difficult, if not impossible, to distinguish between Members who are accredited investors and who are not accredited investors based on the records of the Club.

Even with the staff's concurrence that the Club could send the offering materials to all Members, in the case that the staff believes that the offering should only be made to accredited investors, the Club will only accept subscriptions from Members who affirmatively represent that they are accredited investors. If, notwithstanding any such representation the Club has information to the contrary (that is, the person making the representation is not an accredited investor), the Club will conduct a further investigation before accepting the subscription.

On behalf of the Club, we very much appreciate your consideration of these requests.

Sincerely yours,



Herrick K. Lidstone, Jr.
For the Firm

Cc: Green Gables Country Club



HERRICK K. LIDSTONE, JR.
hkclidstone@bfiw-law.com

November 13, 2007

Via E-mail and U.S. Mail

Gerald Rome, Esq.,
Deputy Commissioner of Securities
Division of Securities
Department of Regulatory Agencies
1560 Broadway, Suite 900
Denver, CO 80202

Re: Request for Interpretive Opinion per C.R.S. §11-51-705
Follow-up correspondence providing additional information
Green Gables Country Club (the "Club")

Dear Deputy Commissioner Rome:

As you know, this firm represents the Club in connection with a contemplated offering of debt to its Members. The following is intended to provide you information about the proposed offering as you requested in your telephone call of November 13, 2007 and supplements the information contained in our letter of October 23, 2007.

1. *Terms of the promissory note.* We have attached a copy of the current draft of the promissory note to be issued to subscribers. You will note that the material terms are:
 - a. Maturity date of January 1, 2013, subject to two potential three year extensions.
 - b. Interest at 1% below the *Wall Street Journal* prime lending rate during the first term; ¾% below the *Wall Street Journal* prime lending rate during the first extension term; and ½% below the *Wall Street Journal* prime lending rate during the second extension term.
 - c. It will be collateralized against the Club's property, in a second position.
 - d. The notes issued will only represent the amount of funds advanced. Participants in the offering will have certain obligations (through November 1, 2010) to advance additional funds, as described below.

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2. *Terms of the Offering.* The Club expects to be offering promissory notes in a maximum amount of \$1,500,000 (\$1,000,000 minimum), which notes will be issued pursuant to a loan and security agreement.
 - a. The Club will deposit all subscription funds received into escrow pursuant to an escrow agreement with the title company who will issue a title policy for the benefit of the participants in the offering. We have not yet finalized arrangements with that title company and therefore cannot name it. The title company will be wholly independent of the Club.
 - b. Initially, participants will only be required to pay into escrow an amount equal to 40% of their subscription amount (\$4,000 on a \$10,000 subscription).
 - c. The Club will not be entitled to use any of the funds in escrow until the Closing, which will only occur after the Club has received subscriptions for at least \$1,000,000 and cash of at least \$600,000 (collectively the "Minimum Amount"). If the Club receives subscriptions for less than the maximum amount (\$1,500,000), the Club will give written notice to the investors of their obligation to contribute additional funds under the notes. For example, in the event subscriptions for only the minimum Offering were achieved and an investor subscribed to a \$10,000 investment, such investor would have initially paid \$4,000 and would be subject to an additional call (payable within 30 days of written notice) of an additional \$2,000 for this purpose; in no event will any investor be obligated to fund more than the subscription amount.
 - d. If the Closing does not occur within two weeks following the Termination Date because sufficient funds have not been deposited (or for any other reason in the discretion of the Club), the escrow agent will return all funds to the investors without interest or deduction.
 - e. The notes will only be offered by officers and directors of the Club, and only to members. As noted in our prior correspondence, no commissions, finders' fees, or other compensation will be paid to any person.

3. *Use of Proceeds.* The proceeds from the offering will be used to reimburse the Club for the expenses of the Offering (estimated to be \$30,000), and to finance the Club's working capital requirements which, at August 31, 2007, was a deficit of \$410,666. As of August 31, 2007, the Club owed \$400,000 on its line of credit with Vectra Bank. The amount

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owed on this line of credit fluctuates as the Club draws from and repays the line of credit.

The initial use of proceeds from this Offering will be to repay in full the then-outstanding balance of this line of credit. The Club has used its working capital line of credit with Vectra Bank to fund its membership programs and capital expenditures, acquire inventory for the golf shop, fund accounts receivable, and cover capital costs associated with other general Club purposes.

4. *Transferability Restrictions.* The notes will be "restricted securities" and as such transferability of the notes will be subject to substantial restrictions:
 - a. Transfers may only be made to members of the Club who are in good standing and who are residents of Colorado;
 - b. Transfers may only be made to persons who meet the suitability requirements for an original investment in the notes, or as the Club may in the future revise those suitability standards;
 - c. Any transfer must comply with federal and state securities laws;
 - d. The transferee must execute appropriate subscription and transfer documents for the benefit of the Club; and
 - e. The transferor and the transferee must demonstrate compliance with the foregoing and other requirements established in the Loan Agreement to the satisfaction of the Club.
 - f. In appropriate cases, the Club may require an opinion of counsel to the transferor or the transferee.

5. *Repayment of Note holders.* The notes provide for payment of interest each January 1, April 1, July 1, and October 1. The Club's senior lender has agreed that the Club may pay interest to the note holders unless there is a negative cash flow from the Club's operations after all expenses have been paid, including the principal and interest charges under the senior loan. The senior loan prohibits the payment of principal or any unpaid interest to the note holders until after the Senior Loan has been paid in

Gerald Rome, Esq.
Deputy Commissioner of Securities
Division of Securities
Department of Regulatory Agencies
November 13, 2007
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full. That term will be included in the loan and security agreement and the deed of trust, and is referenced in the note (see paragraph (a) of "*Default by Borrower.*")

Ultimately the Club plans to repay the notes out of improved cash flow and Membership fees. By using the proceeds of the notes to avoid future assessments to Club members, the Club hopes to achieve financial stability that will retain existing members and attract new members. This is hoped to result in an increased utilization of Club facilities and more profitable operations to provide the cash flow necessary to repay not only the senior loan but these member notes.

If other avenues are not achieved, the Club anticipates that the value of its real property will increase during the term of the notes and will provide additional collateral for a new loan that will repay both the senior loan and these notes when required.

6. *Disclosure.* All of these factors, and more (including Club financial statements), will be disclosed to members considering the purchase of the notes. In addition, the Club will provide to members considering the purchase of the notes copies of the note, proposed deed of trust, loan and security agreement, escrow agreement, and will be required to execute an appropriate subscription agreement.

Thank you very much for the consideration to date. On behalf of the Club, we very much appreciate your efforts.

Sincerely yours,



Herrick K. Lidstone, Jr.
For the Firm

Cc: Green Gables Country Club