CAPTERRA FINANCIAL GROUP, INC.
Form 10-Q
November 16, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 000-50764

CapTerra Financial Group, Inc.

(Exact name of registrant as specified in its charter)

Colorado	20-0003432
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1440 Blake Street, Suite 310 Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

(Registrant s telephone number, including area code: (303) 893-1003

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares of the issuer s outstanding common stock, as of the latest practicable date:

23,602,614 shares	As of November 9, 2009
Common Stock, $0.01 par value	

FORM 10-Q
CapTerra Financial Group, Inc.
TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements for the period ended September 30, 2009	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis and Plan of Operation	12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	15
Item 4. Controls and Procedures	15
PART II OTHER INFORMATION	16
Item 1. Legal Proceedings	16
Item 2. Changes in Securities	20
Item 3. Defaults Upon Senior Securities	20
Item 4. Submission of Matters to a Vote of Security Holders	20
Item 5. Other Information	20
Item 6. Exhibits and Reports on Form 8-K	20
Signatures	21

Exhibit 4.5
Exhibit 21
Exhibit 31.1
Exhibit 32.1

Table of Contents

PART I. FINANCIAL INFORMATION

References in this document to us, we, CPTA or Company refer to CapTerra Financial Group, Inc. and subsidiaries.

ITEM 1. FINANCIAL STATEMENTS

CapTerra Financial Group, Inc.

Consolidated Balance Sheets

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Cash and equivalents	$ 1,076,285	$ 2,383,740
Accounts receivable	217,513	218,357
Notes receivable	3,245,542	2,343,732
Property and equipment, net of accumulated depreciation	12,350	39,432
Real estate held for sale	16,146,238	17,333,027
Deposits and prepaids	34,755	52,436
Total assets	$ 20,732,683	$ 22,370,724
Liabilities and Shareholders Deficit		
Liabilities		
Accounts payable	$	$ 38,414
Accrued liabilities	87,401	128,944
Senior subordinated revolving notes, related parties	22,281,511	20,802,247
Notes payable	6,026,885	7,330,652
Total liabilities	28,395,797	28,300,257
Shareholders deficit		
Common stock, $.001 par value; 50,000,000 shares authorized, 23,602,614 shares issued and outstanding	23,603	23,603
Additional paid-in-capital	16,265,527	16,024,577
Accumulated deficit	(23,952,244)	(21,977,713)
Total shareholders deficit	(7,663,114)	(5,929,533)
Total liabilities and shareholders deficit	$ 20,732,683	$ 22,370,724

See accompanying notes to condensed consolidated financial statements

Table of Contents

CapTerra Financial Group, Inc.
Consolidated Statements of Operations
(unaudited)

	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Revenue:				
Sales	$	$ 3,171,409	$ 2,242,151	$ 4,381,723
Interest income note receivable	191,709	45,691	493,174	38,090
Rental income	130,729	116,570	321,373	224,048
Total revenue	322,438	3,333,670	3,056,698	4,643,861
Operating expenses:				
Cost of sales		2,954,748	2,223,776	4,118,748
Impairment loss on real estate		4,156,444	115,500	4,752,312
Conversion expense				2,518,750
Selling, general and administrative	470,752	579,167	1,506,055	1,943,805
Total operating expenses	470,752	7,690,359	3,845,331	13,333,615
Loss from operations	(148,314)	(4,356,689)	(788,633)	(8,689,754)
Non-operating expense:				
Interest expense	(413,771)	(278,133)	(1,182,194)	(912,987)
Other (expense)/income	1,439	931	(3,703)	9,394
Loss before income taxes	(560,646)	(4,633,891)	(1,974,530)	(9,593,347)
Income tax provision				
Net loss	$ (560,646)	$ (4,633,891)	$ (1,974,530)	$ (9,593,347)
Preferred stock dividends				(154,675)
Net loss available to common shareholders	$ (560,646)	$ (4,633,891)	$ (1,974,530)	$ (9,748,022)
Basic and diluted loss per common share	$ (0.02)	$ (0.20)	$ (0.08)	$ (0.73)
	23,602,614	23,602,614	23,602,614	13,328,519

Basic and diluted weighted average common shares outstanding

See accompanying notes to condensed consolidated financial statements

Table of Contents

CapTerra Financial Group, Inc.
Consolidated Statements of Cash Flows
(unaudited)

	For the nine months ended September 30, 2009	2008
Cash flows from operating activities:		
Net loss	$ (1,974,530)	$ (9,593,347)
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and write-off of assets	27,082	25,854
Impairment of assets	115,500	4,752,312
Conversion expense		2,518,750
Stock option compensation expense	224,793	43,570
Warrant expense	16,156	
Minority interest		(4,594)
Changes in operating assets and operating liabilities:		
Construction in progress		107,504
Real estate held for sale	1,071,289	(229,361)
Land held for development		(2,024,830)
Accounts receivable	844	2,078,574
Deposits and prepaids	17,681	12,840
Accounts payable and accrued liabilities	(79,957)	(546,775)
Unearned revenue		(522,841)
Net cash (used in) operating activities	(581,142)	(3,382,344)
Cash flows from investing activities:		
Cash collections on notes receivable		365,025
Issuance of notes receivable	(901,810)	(131,437)
Cash paid for property and equipment		(11,397)
Net cash (used in)/provided by investing activities	(901,810)	222,191
Cash flows from financing activities:		
Preferred stock dividends paid		(78,187)
Proceeds from issuance of related party loans	3,100,106	12,638,861
Repayment of related party loans	(1,620,842)	(11,247,313)
Proceeds from issuance of notes payable	53,254	3,016,292
Repayment of notes payable	(1,357,021)	(2,424,072)
Net cash provided by financing activities	175,497	1,905,581
Net change in cash	$ (1,307,455)	$ (1,254,572)

Cash and cash equivalents, beginning of the period	$ 2,383,740	$ 2,035,620
Cash and cash equivalents, end of the period	$ 1,076,285	$ 781,048
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	$	$
Interest	$	$
Supplemental disclosure of non-cash investing and financing activities		
Conversion of related notes payable to common stock	$	$ 6,817,912

See accompanying notes to condensed consolidated financial statements

Table of Contents

CapTerra Financial Group, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

(1) Nature of Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

CapTerra Financial Group, Inc. (CPTA or the Company) was incorporated under the laws of Colorado on April 22, 2003. The Company is a co-developer, principally as a financier, for build-to-suit real estate development projects for retailers who sign long-term leases for use of the property. Land acquisition and project construction operations are conducted through the Company s subsidiaries. The Company creates each project such that it will generate income from the placement of the construction loan, rental income during the period in which the property is held, and the capital appreciation of the facility upon sale. Affiliates, subsidiaries and management of the Company will develop the construction and permanent financing for the benefit of the Company.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CapTerra Financial Group, Inc. and the following subsidiaries, which were active at September 30, 2009:

Name of Subsidiary Ownership

Name of Subsidiary	Ownership
South Glen Eagles Drive, LLC	51%
Hwy 46 and Bluffton Pkwy, LLC	51%
AARD LECA LSS Lonestar, LLC	51%
AARD LECA VL1, LLC	51%
AARD-Charmar Greeley, LLC	51%
AARD-Charmar Greeley Firestone, LLC	51%
AARD-Econo Lube Stonegate, LLC	51%
Buckeye AZ, LLC	51%
AARD-Cypress Sound, LLC	51%
AARD Esterra Mesa 1, LLC	100%
CapTerra Fund I, LLC	100%

All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenue from real estate sales under the full accrual method. Under the full accrual method, profit may be realized in full when real estate is sold, provided (1) the profit is determinable and (2) the earnings process is virtually complete (the Company is not obligated to perform significant activities after the sale to earn the profit). The Company recognizes revenue from its real estate sales transactions on the closing date.

The Company also generates minimal rental income between the periods when a real estate project is occupied through the closing date on which the project is sold. In addition, the Company recognizes interest revenue on projects that are funded up front. Rental income is recognized in the month earned.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates have been made by management with respect to the fair values utilized for calculating the Company s impairments on real estate projects. For the quarter ended September 30, 2009 we recognized $-0- in impairment losses and $4,156,444 for the quarter ended September 30, 2008.

Fair Value of Financial Instruments

The Company s financial instruments consist of cash and cash equivalents, notes and accounts receivables and payables. The carrying values of assets and liabilities approximate fair value due to their short-term nature. The carrying amounts of notes payable and debt issued by financial institutions approximate fair value as of September 30, 2009 due to the notes carrying variable interest rates. The carrying value of notes payable to related parties cannot be determined due to the nature of these agreements.

Recent Accounting Pronouncements

On September 30, 2009, we adopted changes issued by Financial Accounting Standards Board (FASB) to the authoritative hierarchy of generally accepted accounting principles in the United States (GAAP). These changes established the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standard Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on our consolidated financial statements.

As of June 15, 2009 we adopted changes issued by FASB for Subsequent Events which established principles and requirements for stating subsequent events. A subsequent event consists of events that provide additional information of a condition that is already being reported or of an event that does not exist as the balance sheet date. Certain events must be disclosed so as to not have financial statements that are misleading. Management will evaluate and determine the potential disclosure of the event(s) through the date the financial statements are issued.

As of June 15, 2009 we adopted changes issued by FASB for determining fair value of financial instruments when the volume and level of activity for an asset or liability have significantly decreased and identifying transactions that are not orderly provides guidance on estimating fair value when market activity has decreased and on identifying transactions that are not orderly. Additionally, entities are required to disclose in interim and annual periods the inputs and valuation techniques used to measure fair value. As the requirements under this guidance are consistent with our current practice, the implementation of this standard did not have a significant impact on our consolidated financial statements.

In June 2008, the FASB approved guidance on determining whether an instrument (or embedded feature) is indexed to an entity s own stock. The guidance instructs an entity to use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. The adoption of this guidance on January 1, 2009, required the Company to perform additional analyses on both its freestanding equity derivatives and embedded equity derivative features. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements in 2009.

(2) Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company has incurred recurring losses, has used significant cash in support of its operating activities, has a limited operating history and is reliant upon funding commitments with two significant shareholders. These factors, among others, may indicate that the Company will be unable to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company s continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and ultimately to attain profitability. The Company plans to generate the necessary cash flows with increased sales revenue over the next 12 months. However, should the Company s sales not provide sufficient cash flow, the Company has plans to raise additional working capital through debt and/or equity financings. There is no assurance the Company will be successful in producing increased sales revenues or obtaining additional funding through debt and equity financings.

The Company currently relies on its majority shareholder, GDBA Investments, LLC (GDBA), and another significant shareholder, BOCO Investments, LLC (BOCO), to provide a substantial amount of its debt and equity financing. The Company expects to rely upon both GDBA and BOCO for funding commitments in the foreseeable future.

(3) Real Estate Held for Sale

When a project is completed and a certificate of occupancy is issued, the assets for the project under land held for sale and construction in progress are reclassified and combined into real estate held for sale . In cases where we own raw land and have made the business decision not to move forward on development, the property is also reclassified into real estate held for sale.

As of September 30, 2009 we had ten properties classified as real estate held for sale totaling $16,146,238 in costs, four of which representing a total cost of $9,292,933 were completed projects and six of which representing a total cost of $6,853,305 were raw land currently being marketed for sale. These properties are located in Arizona, Colorado, California, Florida, South Carolina and Utah.

(4) Related Party Transactions

On September 30, 2009 our outstanding principal balances on our Senior Subordinated Notes and Senior Subordinated Revolving Notes are summarized below:

	GDBA	BOCO	TOTAL
Subordinated notes	$ 7,821,005	$ 13,800,670	$ 21,621,675
Accrued interest	226,833	433,003	659,836.00
Total senior subordinated revolving notes	$ 8,047,838	$ 14,233,673	$ 22,281,511

GDBA Investments, LLLP

On September 28, 2006, GDBA issued $7,000,000 in Senior Subordinated debt to us that matured on September 28, 2009; however, the term was extended to September 28, 2012. This note carries a floating interest rate equal to the higher of 6% or the 90 day average of the 10 year U.S. Treasury Note plus 150 basis points. As part of the note extension, GDBA agreed to receive quarterly interest payments in the form of common shares instead of cash through December 31, 2010. As of September 30, 2009, the full amount of this note was outstanding.

On December 15, 2008, we signed a promissory note to borrow from GDBA up to $500,000 for a period of up to one year at an interest rate of 6% per annum. As of September 30, 2009 the full amount of this note was outstanding.

On April 1, 2009 the company entered into an accrued interest term note with GDBA for the accrued interest amount due through March 31, 2009 of $321,005. The note carries an per annum interest rate of 0.76% with a maturity date of October 28, 2009. As of September 30, 2009 the full amount of this note was outstanding. Subsequent to September 30, 2009, we negotiated an extension of the debt agreement. See footnote 10 for further details.

Since April 1, 2009 we have accrued, but not paid the interest due to GDBA on all outstanding notes. For the quarter ended September 30, 2009, $226,833 of interest was accrued but not paid.

BOCO Investments, LLC

On September 28, 2006, GDBA issued $7,000,000 in Senior Subordinated debt to us that matured on September 28, 2009; however, the term was extended to September 28, 2012. This note carries a floating interest rate equal to the higher of 6% or the 90 day average of the 10 year U.S. Treasury Note plus 150 basis points. As part of the note extension, BOCO agreed to receive quarterly interest payments in the form of common shares instead of cash through December 31, 2010. As of September 30, 2009, the full amount of this note was outstanding.

On September 4, 2008, we signed a promissory note to borrow from BOCO up to $1,000,000 at an interest rate of 6% per annum. This note was due September 25, 2009, with the ability to extend an additional six months. On September 23, 2009 we exercised our option to extend the note to March 25, 2010 and under the agreement issued BOCO 200,000 additional warrants to purchase our common stock at $0.25 per share. As of September 30, 2009, the full amount of this note was outstanding.

On September 4, 2008, we signed a promissory note to borrow from BOCO up to $4,000,000 at an interest rate of 6% per annum. This note is due October 30, 2009, with the ability to extend an additional six months. As of

September 30, 2009 the full amount of this note was outstanding. Subsequent to the quarter ended September 30, 2009 we requested an extension of the maturity date for our $4,000,000 promissory note with BOCO. It was accepted and the maturity date is now April 30, 2010.

On September 10, 2008, we signed a promissory note to borrow from BOCO up to $750,000 at an interest rate of 9% per annum. The note was issued specifically for the assemblage of an additional parcel to our property held under our Esterra Mesa 1, LLC to increase the marketability of the property. The note is secured by a Pledge Agreement on the Company s membership interest in Esterra Mesa 1, LLC. This note was due September 25, 2009, with the ability to extend an additional six months. On September 23, 2009 we exercised our option to extend the note to March 25, 2010 and under the agreement issued BOCO 150,000 additional warrants to purchase our common stock at $0.25 per share. As of September 30, 2009 the full amount of the note has been drawn and per the promissory note terms a $15,000 fee was required.

On December 15, 2008, we signed a promissory note to borrow from BOCO up to $500,000 for a period of up to one year at an interest rate of 6% per annum. As of September 30, 2009 the full amount of this note was outstanding.

On April 1, 2009 the company entered into an accrued interest term note with BOCO in the amount of $550,670 for the accrued interest amount due through March 31, 2009 and $15,000 for the fee due on the September 10, 2008 promissory note. The note carries an per annum interest rate of 0.76% with a maturity date of October 28, 2009. As of September 30, 2009 the full amount of this note was outstanding. Subsequent to September 30, 2009, we negotiated an extension of the debt agreement. See footnote 10 for further details.

Since April 1, 2009 we have accrued, but not paid the interest due to BOCO on all outstanding notes. For the quarter ended September 30, 2009, $433,003 of interest was accrued but not paid.

(5) Shareholders Equity

Preferred Stock

The Board of Directors is authorized to issue shares of preferred stock in series and to fix the number of shares in such series as well as the designation, relative rights, powers, preferences, restrictions, and limitations of all such series.

Common Stock

As of September 30, 2009, the Company had 50,000,000 shares of common stock that are authorized, 23,602,614 shares are issued and outstanding with a par value of $.001 per share.

Warrants

As of September 30, 2009, the Company had 2,850,000 warrants issued to BOCO Investments, LLC, 350,000 of which were issued during the quarter ended September 30, 2009. The 350,000 warrants issued on September 23, 2009 had a three year maturity and an exercise price of $0.25 per share. Given a market price of $0.05 per share, a risk free rate of 1.49% and a volatility input of 48.44% the total amount expensed for these warrants was $363.

Stock Options

On August 4, 2009 the Board of Directors approved the grant of 1,305,131 options to purchase common stock to our Chief Executive Officer and 261,026 options to purchase common stock to our Chief Financial Officer. Fifty percent of the options granted vested immediately and the remaining 50% will vest equally over a three year period. The options had a seven year maturity and an exercise price of $0.49 per share, which was the market price of the stock the day of the grant. Given a risk free rate of 3.21% and a volatility input of 50.78%, the expense recognized for the quarter ended September 30, 2009 for the vested portion of the options was $224,430. The future expense for the life of the options is expected to be $200,806.

(6) Notes Receivable

On October 15, 2008 we entered into a financing with American Child Care Properties to complete the construction of three Tutor Time facilities in Las Vegas, NV. The financing was structured as a $3.9 million note to be drawn for construction as completed in addition to various reserves. Subsequent to the issuance of this note, American Child Care Properties was acquired by RCS Capital Development, LLC. We finalized an assumption and extension agreement whereby the maturity was extended to April 15, 2010, with one optional six-month extension. Because it was also determined that there was greater capacity than would be needed on the portion that had yet to be drawn, the total loan size was decreased to $3.6 million to better suit the needs of the borrower. The interest rate remains unchanged and we received a $67,900 extension fee. As of September 30, 2009, $3,245,542 was drawn on the note.

Table of Contents

(7) Income Taxes

Significant components of the Company s deferred tax assets and liabilities are as follows:

Deferred tax assets:	
Impairment of asset	3,792,000
Net operating loss and carry-forwards	3,948,000
Allowance for Doubtful Accounts	305,000
Partnership income	130,000
Origination Fee Income	(84,000)
Fixed Assets	(4,000)
Other temporary differences	21,000
	8,108,000
Valuation Allowance	(8,108,000)
Total net deferred tax assets	

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the realization of future taxable income during the periods in which those temporary differences become deductible. Management considers past history, the scheduled reversal of taxable temporary differences, projected future taxable income, and tax planning strategies in making this assessment. A valuation allowance for deferred tax assets is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. It is the full intention of the Company, that any carryback and carryforward amounts will be utilized against future taxable income. The vast majority of our NOL carryforwards will expire through the year 2028. The Company has recognized a full valuation allowance.

(8) Notes Payable

United Western Bank Senior Credit Facility

On May 7, 2007, we entered into a $25 million senior credit facility with United Western Bank. This commitment permits us to fund construction notes for build-to-suit real estate projects for national and regional chain retailers. The financing is facilitated through a series of promissory notes. Each note is issued for individual projects under the facility and must be underwritten and approved by United Western Bank and has a term of 12 months with one (1) allowable extension not to exceed 6 months subject to approval. Interest is funded from an interest reserve established with each construction loan. The interest rate on each note is equal to Prime rate minus 50 basis points Each note under the facility is for an amount, as determined by United Western Bank, not to exceed the lesser of 75% of the appraised value of the real property under the approved appraisal for the project or 75% of the project costs. Principal on each note is due at maturity, with no prepayment penalty. United Western Bank retains a First Deed of Trust on each property financed.

We did not renew this facility on May 7, 2008 when it matured, although notes issued while the facility existed were still subject to their full one-year maturity and extension provisions as prescribed under the agreement.

As of September 30, 2009, we had two outstanding notes originally issued under this facility. One note had a principal balance of $2,157,233 as of September 30, 2009 and matures on December 1, 2009. Total accrued interest on this note through September 30, 2009 was $148,013. The other note had a principal balance of $3,589,635 as of September 30, 2009 and matured on September 24, 2009. We are currently working with United Western Bank to extend the note. Total accrued interest on this note through September 30, 2009 was $132,004.

Table of Contents

(9) Impairment of Assets

We invest significantly in real estate assets. Accordingly, our policy on asset impairment is considered a critical accounting estimate. Management periodically evaluates the Company s property and equipment to determine whether events or changes in circumstances indicate that a possible impairment in the carrying values of the assets has occurred. As part of this evaluation, and in accordance with FASB, the Company records the carrying value of the property at the lower of its carrying value or its estimated fair value, less estimated selling costs. The amount the Company will ultimately realize on these asset sales could differ from the amount recorded in the financial statements. The Company engages real estate brokers to assist in determining the estimated selling price or when external opinions are not available uses their own market knowledge. The estimated selling costs are based on the Company s experience with similar asset sales. The Company records an impairment charge and writes down an asset s carrying value if the carrying value exceeds the estimated selling price less costs to sell. In the Company s valuation of its impairment on real estate, level 2 inputs were utilized to determine the fair value of those assets.

We recognized $-0- and $4,156,444 of impairments for the quarters ended September 30, 2009 and 2008, respectively.

(10) Subsequent Events

On October 20, 2009, we exercised our six month extension for our $4,000,000 promissory note with BOCO Investments as prescribed in the original extension dated September 4, 2008. The maturity date has been extended to April 30, 2010. In exchange for this extension, we have granted BOCO Investments an additional warrant to purchase 800,000 common shares at a price of $0.25 per share for a period of three years from the date of the extension of the Note.

On October 28, 2009 our temporary interest notes to GDBA and BOCO matured. Both GDBA and BOCO approved one-year extensions to these notes at an annual interest rate of 6% to be paid upon their maturity.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and notes thereto included in, Item 1 in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements.

Forward-Looking Statements

The Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements. Such forward-looking statements are based on current expectations, estimates, and projections about our industry, management beliefs, and certain assumptions made by our management. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, variations of such words, and similar expressions are intended to i such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. However, readers should carefully review the risk factors set forth herein and in other reports and documents that we file from time to time with the Securities and Exchange Commission, particularly the Annual Reports on Form 10-K and any Current Reports on Form 8-K.

Overview and History

HISTORY

We were founded in 2003 as a development partner, providing 100% financing for build-to-suit, small-box retail development projects throughout the United States. Offering 100% financing for our development partners consisted of providing equity or subordinated debt for approximately twenty-five percent of a project s cost and utilizing our senior debt facilities to provide a construction loan for the other seventy-five percent of the project s cost. While we provided the capital for the project, our development partner s responsibility was to obtain a lease, develop, market and sell the project once complete. In exchange for providing all of the capital, we took a controlling interest in the project and received 50% of the profits when the project was sold, with a minimum profit threshold for us in order to protect our downside.

In order to facilitate growth, we focused on building our Company s infrastructure, particularly in the areas of deal generation, underwriting, and operations, as well as in finance and accounting. Early on, we implemented a growth strategy of creating a distributed sales force throughout the United States focused on creating relationships with developers and qualifying deals for us to finance. Once deals were generated, it was estimated that they would be developed and sold within seven to ten months. At that point revenues would be generated and capital returned to be recycled into new projects.

Beginning in March 2008, with the changing of our management team, we re-assessed our business model and drew the following conclusions: 1) Our development partners had no hard investment in the projects and were not properly incentivized to continue projects when expected profitability fell; 2) Our investment program and marketing efforts did not cater to high quality sponsors with whom we could generate profitable, repeat business; 3) While successful projects proved to be highly profitable, portfolio experience demonstrated that downside risk was larger than originally anticipated; 4) While there are many transactions that worked within our target market, we were unlikely to meet our growth objectives given the limited scope of our addressable market; and 5) Our corporate infrastructure and cost structure was too large for the production levels that we were achieving.

In the second quarter 2008, we began to plan to significantly expand the scope of our business model in order to take advantage of changed market opportunities and more efficiently and profitably deploy capital going forward. The expanded model includes the broadening our target property types beyond small-box, single-tenant retail to include office, industrial, multi-family, multi-tenant retail, hospitality and select land transactions. In addition, we have expanded our financial product offerings to focus on preferred equity, mezzanine debt and high yield bridge loans.

Our expanded model focuses on investing in higher-quality, more experienced developers, owners and operators. These target partners typically have equity capital to invest and are able to secure senior debt for their projects, but require additional capital, particularly in today s capital market environment, to bridge the gap between senior debt and their available equity. We seek to fill this gap with preferred equity or mezzanine debt. These structures generally require our partner to provide the senior debt as well as have some equity invested in order to prevent us from being in a first-loss position, which will allow us to invest in larger transactions, with higher quality partners, at lower risk but higher risk-adjusted returns than transactions in which we have previously invested.

RECENT DEVELOPMENTS

While we had some success in deploying capital under our new approach, our slower than expected disposition of our existing properties has created investment capital constraints that has delayed the full implementation of our growth strategy. In January 2009, we shifted our immediate focus to capital preservation and portfolio management. Under this strategy we have dramatically decreased our operating capital needs and are focusing on the disposition of our current portfolio in a manner that maximizes our shareholder value. As we sell existing properties and recoup invested capital, we will actively pursue new investment opportunities and will then shift our focus back to the growth strategy we identified last year.

Our principal business address is 1440 Blake Street, Suite 310, Denver, CO 80202

We have not been subject to any bankruptcy, receivership or similar proceeding.

Results of Operations

The following discussion involves our results of operations for the quarters ending September 30, 2009 and September 30, 2008. Our revenues for the quarter ended September 30, 2009 were $322,438 compared to $3,333,670 for the quarter ended September 30, 2008. Project sales for the quarter ended September 30, 2009 were $-0- compared to $3,171,409 for the quarter ended September 30, 2008. We will continue to recognize sales revenue as we sell our current properties, all of which are currently classified held for sale ; however, given current real estate market conditions we can not accurately predict the timing of these sales. Rental income for the quarter ended September 30, 2009 was $130,729 compared to $116,570 for the quarter ended September 30, 2008. We had interest income on notes receivable totaling $191,709 for the quarter ended September 30, 2009 compared to $45,691 for the quarter ended September 30, 2008. We believe these fees should remain fairly stable for the rest of 2009 into early 2010.

We recognize cost of sales on projects during the period in which they are sold. We had $-0- of cost of sales for the quarter ended September 30, 2009 and $2,954,748 for the quarter ended September 30, 2008. Since we had no sales for the quarter ended September 30, 2009 we have no cost of sales for that same period. Cost of sales going forward will continue to be correlated with the timing of our property sales.

Selling, general and administrative costs were $470,752 for the quarter ended September 30, 2009 compared to selling, general and administrative costs of $579,167 for the quarter ended September 30, 2008. This decrease is largely attributable to several cost cutting measures implemented during the first quarter of 2009 that included downsizing our workforce and moving our corporate offices. We will continue to realize the effect of these cost cutting measures during the remainder of the 2009 year and we anticipate that our selling, general and administrative expense will decrease further moving forward.

During the quarter ended September 30, 2009 we recognized no impairment charges. We recognized $4,156,444 of impairment expense for the period ended September 30, 2008. We believe our balance sheet correctly reflects the current fair value of our projects; however, we will continue to test our properties for impairment on a yearly basis or as triggering events occur.

For the quarters ended September 30, 2009 and September 30, 2008, we recognized a current and deferred tax asset that was offset by a deferred tax allowance in the same amount.

We had a net loss of $560,646 for the quarter ended September 30, 2009 compared to a net loss of $4,633,891 for the quarter ended September 30, 2008.

Our revenues for the nine months ended September 30, 2009 were $3,056,698 compared to $4,643,861 for the nine months ended September 30, 2008. Project sales for the nine months ended September 30, 2009 were $2,242,151 compared to $4,381,723 for the nine months ended September 30, 2008. This increase was due to additional projects sold during the period. We anticipate project sales will increase over the next several quarters as we sell current properties available for sale. We had rental income for the nine months ended September 30, 2009 of $321,373 compared to $224,048 for the nine months ended September 30, 2008, which is attributable to having more rent producing properties in the current nine months versus the prior year. We recognized interest income of $493,174 for the nine months ended September 30, 2009 compared to $38,090 for the nine months ended September 30, 2008. The increase in interest income was due to a bridge loan which was originated in October 2008.

Selling, general and administrative costs were $1,506,055 for the nine months ended September 30, 2009 compared to $1,943,805 for the nine months ended September 30, 2008. This decrease is largely attributable to several cost cutting measures implemented during the first quarter of 2009 that included downsizing our workforce and moving our corporate offices. We will continue to realize the effect of these cost cutting measures during the remainder of the 2009 year and we anticipate that our selling, general and administrative expense will decrease further moving forward.

During the nine months ended September 30, 2009 we recognized $115,500 of impairment expense compared to $4,752,312 for the nine months ended September 30, 2008. We believe our balance sheet correctly reflects the current fair value of our projects; however, we will continue to impairment test each of the properties in our portfolio on a yearly basis or as triggering events occur. We also recognized a conversion expense of $2,518,750 for the nine months ended September 30, 2008, which was related to the conversion of subordinated debt and convertible preferred stock into common stock at a price which was deemed to be below fair value.

We had a net loss of $1,974,535 for the nine months ended September 30, 2009 compared to a net loss of $9,593,347 for the nine months ended September 30, 2008. On June 30, 2008, we converted all convertible preferred stock to common stock so we will not pay a preferred stock dividend going forward.

Liquidity and Capital Resources

Cash and cash equivalents, were $1,076,285 on September 30, 2009 compared to $781,048 on September 30, 2008.

Cash used in operating activities was $581,142 for the nine months ended September 30, 2009 compared to $3,382,344 for the nine months ended September 30, 2008. This change was primarily the result of fewer projects acquired or under construction during the current period. Cash used in operations should continue to decrease as we sell properties currently held for sale.

Cash used in investing activities was $901,810 for the nine months ended September 30, 2009. Cash provided by investing activities was $222,191 for the nine months ended September 30, 2008. We issue promissory notes to our development partners when we invest earnest money on potential new projects which are retired when we purchase the land into the subsidiary. In the fourth quarter of 2008 we recognized an allowance to fully cover all outstanding promissory notes balance as of December 31, 2008. The balance and allowance remained the same for the quarter ended September 30, 2009.

Cash provided by financing activities was $175,497 for the nine months ended September 30, 2009 compared to $1,905,581 for the nine months ended September 30, 2008. This change was primarily the result of fewer projects acquired or under construction during the current period. Cash provided by financing activities should continue to decrease as we pay down related party notes associated with property sales.

Based on our cash balance and our availability on our Senior Subordinated Notes as of September 30, 2009, we may not have adequate cash available to meet all of our obligations with regard to operating capital and project equity required over the next twelve months. We will need to sell some of our existing projects in order to fund our operations for the next twelve months. We continue to work with our existing investors and are seeking additional investors to secure the capital required to fund our operations going forward.

In addition, the note for $3,721,638 that was issued by United Western Bank matured on September 24, 2009. While we are currently working with the bank to renew the loan it is possible that the renewal would require a principal reduction of approximately $900,000. Although we believe that we have an alternative solution that won t require the additional capital outflow, should it be necessary to make a principal payment of this size, it would have a materially negative impact on our liquidity and capital resources. No assurances can be made that management will be able to renew this note at terms favorable to the Company which could also have a material negative impact on our liquidity and capital resources

Management continues to assess our capital resources in relation to our ability to fund continued operations on an ongoing basis. As such, management may seek to access the capital markets to raise additional capital through the issuance of additional equity, debt or a combination of both in order to fund our operations and future growth.

Subsequent to the quarter ended September 30, 2009 we requested an extension of the maturity date for our $4,000,000 promissory note with BOCO. It was accepted and the maturity date is now April 30, 2010. In addition, we were approved to generate promissory notes to GDBA and BOCO for the total of accrued interest payable to them as of September 30, 2009. As of September 30, 2009, we had $21.62 million in subordinated debt notes that were fully drawn. We had no availability on our credit lines on September 30, 2009.

There is no assurance that these notes will be renewed or extended or that the terms will be acceptable to management.

Recently Issued Accounting Pronouncements

On September 30, 2009, we adopted changes issued by Financial Accounting Standards Board (FASB) to the authoritative hierarchy of generally accepted accounting principles in the United States (GAAP). These changes established the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standard Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on our consolidated financial statements.

As of June 15, 2009 we adopt changes issued by FASB for Subsequent Events which established principles and requirements for stating subsequent events. A subsequent event consists of events that provide additional information of a condition that is already being reported or of an event that does not exist as the balance sheet date. Certain events must be disclosed so as to not have financial statements that are misleading. Management will evaluate and determine the potential disclosure of the event(s) through the date the financial statements are issued.

As of June 15, 2009 we adopted changes issued by FASB for determining fair value of financial instruments when the volume and level of activity for an asset or liability have significantly decreased and identifying transactions that are not orderly provides guidance on estimating fair value when market activity has decreased and on identifying transactions that are not orderly. Additionally, entities are required to disclose in interim and annual periods the inputs and valuation techniques used to measure fair value. As the requirements under this guidance are consistent with our current practice, the implementation of this standard did not have a significant impact on our consolidated financial statements.

In June 2008, the FASB approved guidance on determining whether an instrument (or embedded feature) is indexed to an entity s own stock. The guidance instructs an entity to use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. The adoption of this guidance on January 1, 2009, required the Company to perform additional analyses on both its freestanding equity derivatives and embedded equity derivative features. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements in 2009.

Seasonality

At this point in our business operations our revenues are not impacted by seasonal demands for our products or services. As we penetrate our addressable market and enter new geographical regions, we may experience a degree of seasonality.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These relate to bad debts, impairment of intangible assets and long lived assets, contractual adjustments to revenue, and contingencies and litigation. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations.

Our critical accounting policies are estimates and are included in our Annual 10K filed with the SEC on April 15, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of our disclosure controls and procedures as defined under the Exchange Act, our Chief Executive Officer and the Chief Financial Officer has concluded that our disclosure controls and procedures are effective.

There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This report does not include an attestation report of the company s registered public accounting firm regarding internal control over financial reporting. Identified in connection with the evaluation required by paragraph (d) of Rule 240.13a-15 or Rule 240.15d-15 of this chapter that occurred during the registrant s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no legal proceedings, to which we are a party, which could have a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below; and all of the other information included in this document. Any of the following risks could materially adversely affect our business, financial condition or operating results and could negatively impact the value of your investment.

THERE IS NO GUARANTEE THAT WE WILL BE PROFITABLE IN THE FUTURE. WE WERE UNPROFITABLE FOR OUR TWO MOST RECENT FISCAL YEAR AND QUARTER ENDS.

Our revenues for the fiscal year ended December 31, 2008 were $4,799,708. We had a net loss of $14,710,593 for the fiscal year ended December 31, 2008. Our revenues for the quarter ended September 30, 2009 were $322,438 compared to revenues for the quarter ended September 30, 2008 of $3,333,670. We had a net loss of $560,646 for the quarter ended September 30, 2009 compared to a net loss of $4,633,891, for the quarter ended September 30, 2008. As of September 30, 2009 we have an accumulated deficit of $23,952,244. We have only completed a limited number of transactions, so it continues to be difficult for us to accurately forecast our quarterly and annual revenue. However, we use our forecasted revenue to establish our expense budget. Most of our expenses are fixed in the short term or incurred in advance of anticipated revenue. As a result, we may not be able to decrease our expenses in a timely manner to offset any revenue shortfall. We attempt to keep revenues in line with expenses but cannot guarantee that we will be able to do so.

BECAUSE WE HAVE RECURRING LOSSES, HAVE USED SIGNIFICANT CASH IN SUPPORT OF OUR OPERATING ACTIVITIES, HAVE A LIMITED OPERATING HISTORY AND ARE RELIANT UPON FUNDING COMMITMENTS WITH TWO SIGNIFICANT SHAREHOLDERS, OUR ACCOUNTANTS HAVE EXPRESSED DOUBTS ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

For the year ended December 31, 2008, our accountants have expressed doubt about our ability to continue as a going concern as a result of recurring losses, the use of significant cash in support of our operating activities, our limited operating history and our reliance upon funding commitments with two significant shareholders. Our continuation as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis and ultimately to attain profitability. Our ability to achieve and maintain profitability and positive cash flow is dependent upon:

- our ability to find suitable real estate projects; and
- our ability to generate sufficient revenues from those projects.

We cannot guarantee that we will be successful in generating sufficient revenues or other funds in the future to cover these operating costs. Failure to generate sufficient revenues will cause us to go out of business.

WE WILL NEED ADDITIONAL FINANCING IN THE FUTURE BUT CANNOT GUARANTEE THAT IT WILL BE AVAILABLE TO US.

In order to expand our business, we will continue to need additional capital. To date, we have been successful in obtaining capital, but we cannot guarantee that additional capital will be available at all or under sufficient terms and conditions for us to utilize it. Because we have an ongoing need for capital, we may experience a lack of liquidity in our future operations. We will need additional financing of some type, which we do not now possess, to fully develop our business plan. We expect to rely principally upon our ability to raise additional financing, the success of which cannot be guaranteed. To the extent that we experience a substantial lack of liquidity, our development in accordance with our business plan may be delayed or indefinitely postponed, which would have a materially adverse impact on our operations and the investors investment.

AS A COMPANY WITH LIMITED OPERATING HISTORY, WE ARE INHERENTLY A RISKY INVESTMENT. OUR OPERATIONS ARE SUBJECT TO OUR ABILITY TO FINANCE REAL ESTATE PROJECTS.

Because we are a company with a limited history, our operations, which consist of real estate financing of build-to-suite projects for specific national retailers, are subject to numerous risks. Our operations will depend, among other things, upon our ability to finance real estate projects and for those projects to be sold. Further, there is the possibility that our proposed operations will not generate income sufficient to meet operating expenses or will generate income and capital appreciation, if any, at rates lower than those anticipated or necessary to sustain the investment. The value of our assets may become impaired by a variety of factors, which would make it unlikely, if not impossible to profit from the sale of our real estate. We have already experienced impairments to our assets and may do so in the future. Our operations may be affected by many factors, some of which are beyond our control. Any of these problems, or a combination thereof, could have a materially adverse effect on our viability as an entity.

Table of Contents

WE HAVE A HEAVY RELIANCE ON OUR CURRENT FUNDING COMMITMENTS WITH TWO SIGNIFICANT SHAREHOLDERS.

We are currently dependent upon our relationships with GDBA and BOCO. We currently have $7.82 million in outstanding notes with GDBA and $13.80 million in outstanding notes with BOCO. We would be unable to fund any projects in the foreseeable future, if we lose our current funding commitment from these shareholders.

OUR INDEBTEDNESS UNDER OUR VARIOUS CREDIT FACILITIES ARE SUBSTANTIAL AND COULD LIMIT OUR ABILITY TO GROW OUR BUSINESS.

As of September 30, 2009, we had total indebtedness under our various credit facilities of approximately $27.4 million. Our indebtedness could have important consequences to you. The Company has balances under our credit facility that will mature during the next year. There is no assurance that these notes will be renewed or extended or that the terms will be acceptable to management. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness if we do not maintain specified financial ratios, thereby reducing the availability of our cash flow for other purposes; or
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, thereby placing us at a competitive disadvantage compare to our competitors that may have less indebtedness.

As of September 30, 2009, we had no availability for additional borrowing under our $21.62 million various credit facilities. If we increase our indebtedness by borrowing under our various credit facilities or incur other new indebtedness, the risks described above would increase.

There is no assurance that these notes will be renewed or extended or that the terms will be acceptable to management.

OUR VARIOUS CREDIT FACILITIES HAVE RESTRICTIVE TERMS AND OUR FAILURE TO COMPLY WITH ANY OF THESE TERMS COULD PUT US IN DEFAULT, WHICH WOULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS AND PROSPECTS.

Our various credit facilities contain a number of significant covenants. These covenants limit our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- make capital expenditures and other investments above a certain level;
- merge, consolidate or dispose of our assets or the capital stock or assets of any subsidiary;
- pay dividends, make distributions or redeem capital stock in certain circumstances;
- enter into transactions with our affiliates;
- grant liens on our assets or the assets of our subsidiaries; and
- make or repay intercompany loans.

Our various credit facilities require us to maintain specified financial ratios. Our ability to meet these financial ratios and tests can be affected by events beyond our control, and we may not meet those ratios. A breach of any of these restrictive covenants or our inability to comply with the required financial ratios would result in a default under our various credit facilities or require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness. If the creditors accelerate amounts owing under our various credit facilities because of a default and we are unable to pay such amounts, the creditors have the right to foreclose on our assets.

17

WE PAY INTEREST ON A MAJORITY OF OUR CREDIT FACILITIES AT VARIABLE RATES, RATHER THAN FIXED RATES, WHICH COULD AFFECT OUR PROFITABILITY.

All of our credit facilities provide for the payment of interest at variable rates. None of our credit facilities provide for the payment of interest at fixed rates. We can potentially realize profitability to the extent that we can borrow at a lower rate of interest and charge a higher rate of interest in our operations. Because our credit facilities are at variable rates, our profit margins could be depressed or even eliminated by rising interest rates on funds we must borrow. Rising interest rates could have a materially adverse affect on our operations.

WE DO NOT HAVE A LONG HISTORY OF BEING ABLE TO SELL PROPERTIES AT A PROFIT

We have only been in business since 2003. We do not have a significant track record and may be unable to sell properties upon completion. We have already experienced impairments to our assets of approximately $11 million as of September 30, 2009. We may incur additional impairments in the future. We may be forced to sell properties at a loss. Furthermore, in order to sell properties for a profit, we may be forced to hold properties for longer periods that we plan, which may require the need for additional financing sources. Any of these conditions would likely result in reduced operating profits and could likely strain current funding agreements.

WE MAY NOT BE ABLE TO MANAGE OUR GROWTH.

We hope to experience rapid growth which, if achieved, will place a significant strain on our managerial, operational, and financial systems resources. To accommodate our current size and manage growth, we must continue to implement and improve our financial strength and our operational systems, and expand. There is no guarantee that we will be able to effectively manage the expansion of our operations, or that our systems, procedures or controls will be adequate to support our expanded operations or that we will be able to obtain facilities to support our growth. Our inability to effectively manage our future growth would have a material adverse effect on us.

THE MANNER IN WHICH WE FINANCE OUR PROJECTS CREATES THE POSSIBILITY OF A CONFLICT OF INTEREST.

We fund our projects with construction financing obtained through the efforts of our management and our shareholders, GDBA and BOCO. This arrangement could create a conflict of interest with respect to such financings. However, there may be an inherent conflict of interest in the arrangement until such time as we might seek such financings on a competitive basis.

WE HAVE A LACK OF INDEPENDENT DIRECTORS.

We do not have a majority of independent directors on our board of directors and we cannot guarantee that our board of directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, which are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between our stockholders and us generally and the controlling officers, stockholders or directors.

INTENSE COMPETITION IN OUR MARKET COULD PREVENT US FROM DEVELOPING REVENUE AND PREVENT US FROM ACHIEVING ANNUAL PROFITABILITY.

We provide a defined service to finance real estate projects. The barriers to entry are not significant. Our service could be rendered noncompetitive or obsolete. Competition from larger and more established companies is a significant threat and expected to increase. Most of the companies with which we compete and expect to compete have far greater capital resources, and many of them have substantially greater experience in real estate development. Our ability to compete effectively may be adversely affected by the ability of these competitors to devote greater resources than we can.

THERE ARE POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS.

Our quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside of our control, including: the demand for our products or services; seasonal trends in financing; the amount and timing of capital expenditures and other costs relating to the development of our properties; price competition or pricing changes in the industry; technical or regulatory difficulties; general economic conditions; and economic conditions specific to our industry. Our quarterly results may also be significantly impacted by the accounting treatment of acquisitions, financing transactions or other matters. Particularly at our early stage of development, such accounting treatment can have a material impact on the results for any quarter. Due to the foregoing factors, among others, it is likely that our operating results will fall below our expectations or those of investors in some future quarter.

Table of Contents

OUR SUCCESS WILL BE DEPENDENT UPON OUR OPERATING PARTNERS EFFORTS.

Our success will be dependent, to a large extent, upon the efforts of our operating partners in our various projects. To the extent that these partners, individually or collectively, fail to develop projects in a timely or cost-effective manner, our profit margins could be depressed or even eliminated. If we cannot or do not select appropriate partners for our projects, our profitability and viability will suffer. The absence of one or more partners who develop projects in a timely or cost-effective manner could have a material, adverse impact on our operations.

OUR SUCCESS WILL BE DEPENDENT UPON OUR MANAGEMENT S EFFORTS.

Our success will be dependent upon the decision making of our directors and executive officers. These individuals intend to commit as much time as necessary to our business, but this commitment is no assurance of success. The loss of any or all of these individuals, particularly James W. Creamer, III, our President, Treasurer and Chief Executive Officer, could have a material, adverse impact on our operations. We have no written employment agreements with any officers and directors, including Mr. Creamer. We have not obtained key man life insurance on the lives of any of these individuals.

THERE IS A LIMITATION OF LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS.

Our officers and directors are required to exercise good faith and high integrity in our management affairs. Our articles of incorporation provides, however, that our officers and directors shall have no liability to our stockholders for losses sustained or liabilities incurred which arise from any transaction in their respective managerial capacities unless they violated their duty of loyalty, did engage in intentional misconduct or gross negligence. Our articles and bylaws also provide for the indemnification by us of the officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate our business or conduct the internal affairs.

OUR STOCK PRICE MAY BE VOLATILE, AND YOU MAY NOT BE ABLE TO RESELL YOUR SHARES AT OR ABOVE THE PUBLIC SALE PRICE.

There has been, and continues to be, a limited public market for our common stock. Our common stock trades on the NASD Bulletin Board. However, an active trading market for our shares have not, and may never develop or be sustained. If you purchase shares of common stock, you may not be able to resell those shares at or above the initial price you paid. The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, including the following:

- actual or anticipated fluctuations in our operating results;
- change in financial estimates by securities analysts or our failure to perform in line with such estimates;
- changes in market valuations of other real estate oriented companies, particularly those that market services such as ours;
- announcements by us or our competitors of significant innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for our services;
- the loss of one or more key customers; and
- departures of key personnel.

Further, we cannot assure that an investor will be able to liquidate his investment without considerable delay, if at all. The factors which we have discussed in this document may have a significant impact on the market price of our common stock. It is also possible that the relatively low price of our common stock may keep many brokerage firms from engaging in transactions in our common stock.

As restrictions on the resale of our common stock end, the market price of our stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them.

BUYING A LOW-PRICED PENNY STOCK SUCH AS OURS IS RISKY AND SPECULATIVE.

Our shares are defined as a penny stock under the Securities and Exchange Act of 1934, and rules of the Commission. The Exchange Act and such penny stock rules generally impose additional sales practice and disclosure requirements on broker-dealers who sell our securities to persons other than certain accredited investors who are, generally, institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 jointly with spouse, or in transactions not recommended by a broker-dealer. For transactions covered by the penny stock rules, a broker-dealer must make a suitability determination for each purchaser and receive the purchaser s written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures in penny stock transactions, including the actual sale or purchase price and actual bid and offer quotations, the compensation to be received by the broker-dealer and certain associated persons, and deliver certain disclosures required by the SEC. Consequently, the penny stock rules may affect the ability of broker-dealers to make a market in or trade our common stock and may also affect your ability to sell any of our shares you may own in the public markets.

WE DO NOT EXPECT TO PAY CASH DIVIDENDS ON COMMON STOCK.
We have not paid any cash dividends with respect to our common stock, and it is unlikely that we will pay any cash dividends on our common stock in the foreseeable future. Earnings, if any, that we may realize will be retained in the business for further development and expansion.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On August 4, 2009, we issued stock options under our 2008 Equity Compensation Plan to our two officers. To Mr. James W. Creamer, III, we issued stock options to purchase a total of 1,305,131shares at an exercise price of $0.49 per share. To Ms. Joni Troska, we issued stock options to purchase a total of 261,027 shares at an exercise price of $0.49 per share.

Subject to termination of employment provisions and acceleration upon a defined change in control, 50% of the total number of the shares subject to the stock option vested immediately. A total of, 16.667% shall vest and become exercisable on the first anniversary date of August 4, 2009 (Vesting Commencement Date) and 16.667% shall vest and become exercisable on each succeeding anniversary date of the Vesting Commencement Date.

Each optionee agrees not to offer, sell, contract to sell, pledge, hypothecate, grant any option to purchase or otherwise dispose of any options or any common shares underlying such option that are acquired pursuant to the stock option for a period of four (4) years after the Vesting Commencement Date.

Vested shares exercised by an optionee may not be sold for a period of four (4) years from the grant date unless released from the lockup provision by criteria based upon the volume of trading of our common stock.

On September 23, 2009, we granted BOCO Investments, LLC a warrant to purchase 350,000 common shares at a purchase price of $0.25 per share until September 23, 2012.

In the transactions shown above, the issuance, delivery and sale of the securities were made pursuant to the private offering exemption within the meaning of Section 4(2) of the Securities Act of 1933 (Act) because the offers were made to a limited number of people, all of whom received all material information concerning the investment and all of whom have had sophistication and ability to bear economic risk based upon their representations to us and their prior experience in such investments. The exemptions are claimed upon, among other things, certain representations made by the purchasers in connection with the transactions. The exercise price of the stock options was determined pursuant to the provisions of the 2008 Equity Compensation Plan. The exercise price of the warrants was negotiated at arms-length between our Board of Directors and BOCO Investments, LLC.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

4.5	Warrant dated September 23, 2009 for BOCO INVESTMENTS, LLC.
21	List of Subsidiaries
31.1	Certification of Chief Executive/Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a)
32.1	Certification of Chief Executive/Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Reports on Form 8-K

We filed one report under cover of Form 8-K on August 7, 2009 for the fiscal quarter ended September 30, 2009, relating to the appointment of Ms. Joni Troska as our Chief Financial Officer.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has dully caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CAPTERRA FINANCIAL GROUP, INC.
Dated: November 13, 2009	By: /s/ James W Creamer III James W Creamer III President & CEO
	CAPTERRA FINANCIAL GROUP, INC.
Dated: November 13, 2009	By: /s/ Joni K Troska Joni K Troska Chief Financial Officer,

EXHIBIT INDEX

Exhibit No.	Description
4.5	Warrant dated September 23, 2009 for BOCO INVESTMENTS, LLC.
21	List of Subsidiaries
31.1	Certification of Chief Executive/Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a)
32.1	Certification of Chief Executive/Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002