

CAPTERRA FINANCIAL GROUP, INC.

Form 10-Q/A

April 16, 2009

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1**

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

**For the Quarterly period ended June 30, 2008**

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

***Commission File No. 000-50764***

**CapTerra Financial Group, Inc.**

**Formerly Known as**

**Across America Real Estate Corp.**

(Exact Name of Issuer as specified in its charter)

Colorado

20-0003432

(State or other jurisdiction  
of incorporation)

(IRS Employer File Number)

700 17th Street, Suite 1200  
Denver, Colorado

80202

(Address of principal executive offices)

(zip code)

(303) 893-1003

(Registrant's telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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  No

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

**PART I FINANCIAL INFORMATION**

|   |    |
|---|----|
| <u>Item 1. Financial Statements for the period ended June 30, 2008</u>    | 1  |
| <u>Balance Sheet (Unaudited)</u>  | 1  |
| <u>Statements of Operations (Unaudited)</u>                               | 2  |
| <u>Statements of Cash Flows (Unaudited)</u>                               | 3  |
| <u>Notes to Financial Statements</u>                                      |    |
| <u>Item 2. Management's Discussion and Analysis and Plan of Operation</u> | 14 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 19 |
| <u>Item 4. Controls and Procedures</u>                                    | 19 |
| <u>Item 4T. Controls and Procedures</u>                                   | 19 |

**PART II OTHER INFORMATION**

|  |    |
|--|----|
| <u>Item 1. Legal Proceedings</u>   | 19 |
| <u>Item 1A. Risk Factors</u>   | 19 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 25 |
| <u>Item 3. Defaults Upon Senior Securities</u>                             | 25 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>         | 25 |
| <u>Item 5. Other Information</u>   | 25 |
| <u>Item 6. Exhibits</u>  | 25 |
| <u>Signatures</u>  | 26 |
| <u>Exhibit 21</u>  |    |
| <u>Exhibit 31.1</u>  |    |
| <u>Exhibit 32.1</u>  |    |

**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.

In this quarterly report on Form 10-Q/A for the three months ended June 30, 2008, CapTerra Financial Group, Inc. ( Company, we ) has restated its consolidated Balance sheet and Statement of operations and Cash flows for the three and six months ended for the effects of the restatement of our financial statements for the year ended December 31, 2007 and the impact of the conversion expense which was restated this quarter. The restatements corrected errors relating to the valuation allowance on our deferred tax asset and the recalculation of the conversion expense related to the conversion of preferred stock and certain notes payable during this quarter. See footnote 14 to our financial statements for the six months ended June 30, 2008.

**ITEM 1. FINANCIAL STATEMENTS**

CapTerra Financial Group, Inc.

Consolidated Balance Sheet

|  | June 30,<br>2008<br>(unaudited)<br>(as restated) | December 31,<br>2007<br>(audited)<br>(as restated) |
|--|--|--|
| <b>Assets</b>  |  |  |
| Cash and Equivalents   | \$ 447,200                                       | \$ 2,035,620                                       |
| Deposits held by an affiliate  | 713,322  | 940,880  |
| Accounts Receivable, net   | 83,150   | 2,156,959  |
| Property and equipment, net of accumulated depreciation  | 105,985  | 112,918  |
| Real estate held for sale  | 16,721,531                                       | 14,398,602   |
| Construction in progress   | 2,986,552  | 2,484,179  |
| Land held for development  | 4,357,495  | 5,388,089  |
| Deposits and prepaids  | 41,400   | 48,451   |
| <b>Total assets</b>  | <b>\$ 25,456,635</b>                             | <b>\$ 27,565,698</b>                               |
| <b>Liabilities and Shareholders' Deficit</b>   |  |  |
| <b>Liabilities</b>   |  |  |
| Accounts payable   | \$ 62,358  | \$ 269,726   |
| Accrued liabilities  | 75,909   | 409,066  |
| Dividends payable  |  | 78,187   |
| Senior subordinated note payable, related parties  |  | 7,000,000  |
| Senior subordinated revolving note, related parties  | 14,750,000                                       | 14,169,198   |
| Note payable   | 6,672,109  | 5,716,397  |
| Unearned Revenue   | 85,146   | 522,841  |
| <b>Total liabilities</b>   | <b>21,645,522</b>                                | <b>28,165,415</b>                                  |
| Minority interest  | 4,594  | 4,594  |
| <b>Shareholders' deficit</b>   |  |  |
| Convertible preferred stock, \$.10 par value; 1,000,000 shares authorized,<br>517,000 shares issued and outstanding December 31, 2007, -0- shares issued |  | 51,700   |

and outstanding June 30, 2008

Common stock, \$.001 par value; 50,000,000 shares authorized, 16,036,625

shares issued and outstanding December 31, 2007 47,205,228 shares issued

and outstanding June 30, 2008

Additional paid-in-capital

Accumulated deficit

Total shareholders deficit

Total liabilities and shareholders deficit

|               |               |
|---------------|---------------|
| 47,205        | 16,037        |
| 15,985,890    | 6,440,398     |
| (12,226,576)  | (7,112,446)   |
| 3,811,113     | (599,717)     |
| \$ 25,456,635 | \$ 27,565,698 |

See accompanying notes to condensed consolidated financial statements

**Table of Contents**CapTerra Financial Group, Inc.  
Consolidated Statements of Operations

|   | Three months ended<br>June 30, |                | Six months ended<br>June 30, |                |
|---|--------------------------------|----------------|------------------------------|----------------|
|   | 2008<br>(as restated)          | 2007           | 2008<br>(as restated)        | 2007           |
| Revenue:  |                                |                |                              |                |
| Sales   | \$                             | \$ 4,924,336   | \$ 1,164,000                 | \$ 4,924,336   |
| Rental income   | 119,788                        | 15,875         | 146,193                      | 52,204         |
| Management fees                                       |                                | 71,116         |                              | 262,771        |
| Total revenue   | 119,788                        | 5,011,327      | 1,310,193                    | 5,239,311      |
| Operating expenses:                                   |                                |                |                              |                |
| Cost of sales   |                                | 4,645,324      | 1,164,000                    | 4,645,324      |
| Impairment loss on real estate                        | 595,868                        | 1,939,513      | 595,868                      | 1,939,513      |
| Conversion expense                                    | 2,518,750                      |                | 2,518,750                    |                |
| Selling, general and administrative                   | 676,633                        | 1,081,704      | 1,364,640                    | 1,907,906      |
| Total operating expenses                              | 3,791,251                      | 7,666,541      | 5,643,258                    | 8,492,743      |
| Loss from operations                                  | (3,671,463)                    | (2,655,214)    | (4,333,065)                  | (3,253,432)    |
| Non-operating expense:                                |                                |                |                              |                |
| Interest income                                       |                                |                |                              | 385            |
| Interest expense                                      | (273,234)                      | (155,584)      | (626,389)                    | (175,317)      |
| Other income (expense)                                |                                | 1,128          |                              | (1,061)        |
| Loss before income taxes and non controlling interest | (3,944,697)                    | (2,809,670)    | (4,959,454)                  | (3,429,425)    |
| Income tax benefit                                    |                                | (953,865)      |                              | (1,166,600)    |
| Loss before minority interest                         | (3,944,697)                    | (1,855,805)    | (4,959,454)                  | (2,262,825)    |
| Minority interest                                     |                                | 67,304         |                              | 73,751         |
| Net loss  | \$ (3,944,697)                 | \$ (1,923,109) | \$ (4,959,454)               | \$ (2,336,575) |
| Preferred stock dividends                             | (77,338)                       | (77,338)       | (154,675)                    | (153,826)      |
| Net loss available to common shareholders             | \$ (4,022,035)                 | \$ (2,000,447) | \$ (5,114,129)               | \$ (2,490,401) |

Edgar Filing: CAPTERRA FINANCIAL GROUP, INC. - Form 10-Q/A

|  |    |            |    |            |    |            |    |            |
|--|----|------------|----|------------|----|------------|----|------------|
| Basic and diluted loss per common share                      | \$ | (0.25)     | \$ | (0.12)     | \$ | (0.32)     | \$ | (0.16)     |
| Basic and diluted weighted average common shares outstanding |    | 16,382,943 |    | 16,036,625 |    | 16,208,827 |    | 16,036,625 |

See accompanying notes to condensed consolidated financial statements

**Table of Contents**CapTerra Financial Group, Inc.  
Consolidated Statements of Cash Flows

|   | <b>Six months ended</b> |                  |
|---|-------------------------|------------------|
|   | <b>June 30,</b>         |                  |
|   | <b>2008</b>             | <b>2007</b>      |
|   | (as restated)           |                  |
| <b>Cash flows from operating activities:</b>                                  |                         |                  |
| Net loss  | \$ (4,959,454)          | \$ (2,336,575)   |
| Adjustments to reconcile net income to net cash used by operating activities: |                         |                  |
| Deferred income taxes   |                         | (1,160,015)      |
| Depreciation  | 18,329                  | 14,151           |
| Impairment of assets  | 595,868                 | 1,939,513        |
| Allowance for bad debt  |                         | 215,953          |
| Conversion expense  | 2,518,750               |                  |
| Stock option compensation expense   | 33,623                  | 68,144           |
| Changes in operating assets and operating liabilities:                        |                         |                  |
| Construction in progress  | (502,373)               | (1,038,805)      |
| Real estate held for sale   | (2,322,929)             | (1,332,260)      |
| Land held for development   | 434,726                 | (1,137,892)      |
| Accounts receivable   | 2,073,809               | (43,644)         |
| Deposits and prepaids   | 7,051                   | 12,710           |
| Accounts payable and accrued liabilities                                      | (540,525)               | (97,450)         |
| Unearned revenue  | (437,695)               |                  |
| Indebtedness to related party   |                         | 4,480,569        |
| Net cash (used in) operating activities                                       | (3,080,820)             | (415,601)        |
| <b>Cash flows from investing activities:</b>                                  |                         |                  |
| Payment of deposits   |                         | (399,622)        |
| Cash collections on notes receivable  | 290,000                 |                  |
| Issuance of notes receivable  | (62,442)                |                  |
| Cash paid for property and equipment  | (11,396)                | (57,068)         |
| Net cash provided by (used in) investing activities                           | 216,162                 | (456,690)        |
| <b>Cash flows from financing activities:</b>                                  |                         |                  |
| Preferred stock dividends paid  | (78,187)                | (156,375)        |
| Proceeds from issuance of related party loans                                 | 6,528,637               |                  |
| Repayment of related party loans  | (6,129,924)             |                  |
| Proceeds from issuance of notes payable                                       | 955,712                 | 1,541,076        |
| Net cash provided by financing activities                                     | 1,276,238               | 1,384,701        |
| Net change in cash  | (1,588,420)             | 512,410          |
| <b>Cash and cash equivalents, beginning of the period</b>                     | <b>2,035,620</b>        | <b>1,097,440</b> |



|   |              |              |
|---|--------------|--------------|
| <b>Cash and cash equivalents, end of the period</b>                           | \$ 447,200   | \$ 1,609,850 |
| <b>Supplemental disclosure of cash flow information:</b>                      |              |              |
| Cash paid during the year for:  |              |              |
| Income taxes  | \$           | \$           |
| Interest  | \$           | \$ 634,445   |
| <b>Supplemental disclosure of non-cash investing and financing activities</b> |              |              |
| Preferred stock dividends declared but not paid                               | \$           | \$ (153,826) |
| Conversion of related notes payable to common stock                           | \$ 6,817,912 | \$           |

See accompanying notes to condensed consolidated financial statements

**Table of Contents****(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 June 30, 2008:

Name of Subsidiary Ownership

| Name of Subsidiary  | Ownership |
|---|-----------|
| CCI Southeast, LLC ( CCISE )                                      | 100.00%   |
| Riverdale Carwash Lot 3A, LLC ( Riverdale )                       | 100.00%   |
| AARD-Cypress Sound, LLC ( Cypress Sound )                         | 51.00%    |
| AARD-TSD-CSK Firestone, LLC ( Firestone )                         | 51.00%    |
| South Glen Eagles Drive, LLC ( West Valley )                      | 51.00%    |
| 119th and Ridgeview, LLC ( Ridgeview )                            | 51.00%    |
| 53rd and Baseline, LLC ( Baseline )                               | 51.00%    |
| Hwy 278 and Hwy 170, LLC ( Bluffton )                             | 51.00%    |
| State and 130th, LLC ( American Fork )                            | 51.00%    |
| Clinton Keith and Hidden Springs, LLC ( Murietta )                | 51.00%    |
| Hwy 46 and Bluffton Pkwy, LLC ( Bluffton 46 )                     | 51.00%    |
| AARD Bader Family Dollar Flat Shoals, LLC ( Flat Shoals )         | 51.00%    |
| AARD Westminster OP7, LLC ( Westminster OP7 )                     | 51.00%    |
| Eagle Palm I, LLC ( Eagle )                                       | 51.00%    |
| AARD Econo Lube Stonegate, LLC ( Econo Lube )                     | 51.00%    |
| AARD Bader Family Dollar MLK, LLC ( MLK )                         | 51.00%    |
| AARD-Charmar Greeley, LLC ( Starbucks )                           | 51.00%    |
| AARD-Charmar Greeley Firestone, LLC                               | 51.00%    |
| AARD 5020 Lloyd Expy, LLC ( Evansville )                          | 51.00%    |
| AARD 2245 Main Street, LLC ( Plainfield )                         | 51.00%    |
| AARD-Buckeye, LLC ( Buckeye )                                     | 51.00%    |
| AARD Esterra Mesa 1, LLC ( Esterra Mesa 1 )                       | 51.00%    |
| AARD Esterra Mesa 2, LLC ( Esterra Mesa 2 )                       | 51.00%    |
| AARD Esterra Mesa 3, LLC ( Esterra Mesa 3 )                       | 51.00%    |
| AARD Esterra Mesa 4, LLC ( Esterra Mesa 4 )                       | 51.00%    |
| AARD MDJ Goddard, LLC ( Goddard )                                 | 51.00%    |
| AARD Charmar Arlington Boston Pizza, LLC ( Charmar Boston Pizza ) | 51.00%    |
| L-S Corona Pointe, LLC ( L-S Corona )                             | 50.01%    |
| AARD LECA LSS Lonestar LLC  | 51.00%    |
| AARD LECA VL1 LLC   | 51.00%    |
| AARD NOLA St claude LLC   | 51.00%    |
| AARD ORFL FD Goldenrod LLC  | 51.00%    |
| AARD SATX CHA LLC   | 51.00%    |

AARD JXFL UTC LLC

51.00%

**Table of Contents**

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

*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. During the year ended December 31, 2007 the Company recorded impairment losses totaling \$3,046,196. During the 2<sup>nd</sup> quarter of 2008 the Company recorded an additional \$595,868 of impairment losses. These estimates directly affect the Company's financial statements, and any changes to the estimates could materially affect the Company's reported assets and net income.

*Accounting Pronouncements*

We continue to evaluate the impact of SFAS No. 141 (R), Business Combinations and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which are required to be adopted at the beginning of our 2009 fiscal year. Further information on these accounting pronouncements is located in our 2007 Form 10KSB.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the U.S. and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On January 1, 2008 the Company only partially adopted the provisions of SFAS No. 157 because of the issuance of Staff Position (the FSP) FAS 157-2, Effective Date of FASB Statement No. 157 which allows companies to delay the effective date of SFAS No. 157 for non-financial assets and liabilities. The partial adoption had no impact on the Company's consolidated financial position and results of operations. Management does not believe that the remaining provisions will have a material effect on the Company's consolidated financial position and results of operations when they become effective on January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. SFAS No. 159 is intended to improve financial reporting by allowing companies to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently and to do so without having to apply complex hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not effect disclosure requirements in other accounting standards. The Company adopted SFAS No. 159 effective for the fiscal year beginning on or after December 29, 2007, and the adoption had no impact on the Company's consolidated financial position and results of operations.

**Table of Contents****(2) Current Development Projects**

Current development projects are divided into two line items on our balance sheet, land held for development and construction in progress, which is made up of all hard costs, soft costs and financing costs that are capitalized into the project. As of June 30, 2008 we had three projects categorized as current development projects totaling \$7,344,047, which was comprised of \$4,357,495 in land and \$2,986,552 of construction in progress. These properties are in stages ranging from pre-construction to mid-construction and are located in two states; California and Louisiana. They represent leases from Lone Star Steakhouse, Family Dollar Stores.

**(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 June 30, 2008 we had eleven properties classified as real estate held for sale totaling \$16,721,531 in costs, six of which were completed projects and five of which were raw land currently being marketed for sale. The completed projects total \$10,266,538 with tenants that include corporate lease and franchisees for Fed Ex Kinkos, Starbucks, Cingular Wireless, Aspen Dental and Shell Oil and are in Arizona, Colorado, Indiana and Utah. Land that is currently for sale totals \$6,454,993 and is located in Arizona, Colorado, Florida and South Carolina.

**(4) Related Party Transactions**

On June 30, 2008 our outstanding principal balances on our Senior Subordinated Notes and Senior Subordinated Revolving Notes are summarized below:

|   | GDBA<br>Investments | BOCO<br>Investments | Total         |
|---|---------------------|---------------------|---------------|
| Revolving Lines of Credit                     | 6,750,000           | 7,250,000           | 14,000,000    |
| Revolving Lines of Credit                     |                     | 750,000             | 750,000       |
| Senior subordinated revolving lines of credit | \$ 6,750,000        | \$ 8,000,000        | \$ 14,750,000 |

**GDBA Investments, LLLP**

On September 28, 2006, GDBA Investments replaced the Agreement to Fund with a new investment structure that included 250,000 shares of Series A Convertible Preferred Stock at \$12.00 per share, a \$3.5 million Senior Subordinated Note and a \$3.5 million Senior Subordinated Revolving Note.

**Table of Contents**

The Series A Convertible Preferred Stock issued under these transactions pays a 5% annual dividend on the Original Issue Price of \$12.00, payable quarterly and is convertible to common stock at a \$3.00 conversion price. Each share of Series A Convertible Preferred Stock is convertible, at the option of the holder, at any time after the issuance of such shares.

In the event the Company issues or sells additional shares of common stock for consideration less than the Series A conversion price in effect on the date of such issuance or sale (currently \$3.00 per share), then the Series A conversion price will be reduced to a price equal to the consideration per share paid for such additional shares of common stock.

The Senior Subordinated Note and the Senior Subordinated Revolving Note both mature on September 28, 2009 and carry a floating interest rate equal to the higher of 11% or the 90 day average of the 10 year U.S. Treasury Note plus 650 basis points, which resets and is payable quarterly. Both the Senior Subordinated Notes and the Senior Subordinated Revolving Notes are subordinated to our Senior Credit Facilities.

On September 28, 2006, the Company recognized \$5,050,000 in revenue through a related party sale of its Riverdale and Stonegate properties to Aquatique Industries, Inc., a company controlled by GDBA.

On April 14, 2007 we completed an additional private placement with GDBA Investments consisting of \$3 million in Subordinated Revolving Notes. The Notes also carry an interest rate equal to the higher of 11% or the 90 day average of the 10 year U.S. Treasury Note plus 650 basis points, which is payable and resets quarterly. These notes were converted to common shares on June 30, 2008.

On June 30, 2008, GDBA Investments, LLLP, entered into an agreement with us to convert all of their Series A Convertible Preferred Stock, which totaled 250,000 shares in the aggregate, to Common Shares. GDBA Investments, LLLP received 5,172,414 Common Shares for its conversion. The Series A Convertible Preferred Stock was retired.

In addition, GDBA Investments, LLLP agreed to convert a total of Three Million Dollars (\$3,000,000) of Subordinated Revolving Notes held by each of them into Common Shares. Investments, LLLP received 5,172,414 shares for this conversion.

We also paid accrued interest and dividends on our retired Subordinated Revolving Notes and Preferred Stock in the form of our Common Shares. GDBA Investments, LLLP received a total of 717,829 common shares for \$482,589 in accrued but unpaid interest and dividends.

**BOCO Investments, LLC**

On September 28, 2006, we completed a \$10 million private placement with BOCO Investments, LLC consisting of 250,000 shares of Series A Convertible Preferred Stock at \$12.00 per share and \$7 million in Senior Subordinated Debt, \$3.5 million of which was drawn at closing and \$3.5 million of which has a revolving feature and can be drawn as needed. Additionally Mr. Joseph Zimlich, BOCO Investments, LLC's Chief Executive Officer, purchased 17,000 shares of Series A Convertible Preferred Stock at \$12.00 per share in his own name.

The Series A Convertible Preferred Stock issued under these transactions pays a 5% annual dividend on the Original Issue Price of \$12.00, payable quarterly and is convertible to common stock at a \$3.00 conversion price. Each share of Series A Convertible Preferred Stock is convertible, at the option of the holder, at any time after the issuance of such shares.

**Table of Contents**

In the event the Company issues or sells additional shares of common stock for consideration less than the Series A conversion price in effect on the date of such issuance or sale (currently \$3.00 per share), then the Series A conversion price will be reduced to a price equal to the consideration per share paid for such additional shares of common stock.

At any time following the one-year anniversary of the Series A original issuance date (September 28, 2006), the Company may cause the conversion of all, but not less than all, of the Series A Preferred Stock. However, the Company may not complete the mandatory conversion unless a registration statement under the Securities Act of 1933 is effective, registering for resale the shares of common stock to be issued upon conversion of the Series A Preferred Stock.

The Senior Subordinated Notes mature on September 28, 2009 and carry an interest rate equal to the higher of 11% or the 90 day average of the 10 year U.S. Treasury Note plus 650 basis points. The Revolving Notes mature on September 28, 2009 and carry an interest rate equal to the higher of 11% or the 90 day average of the 10 year U.S. Treasury Note plus 650 basis points. Both the Senior Subordinated Notes and the Senior Subordinated Revolving Notes are subordinated to our Senior Credit Facilities.

On April 14, 2007 we completed an additional private placement with BOCO Investments consisting of \$3 million in Subordinated Revolving Notes. The Notes also carry an interest rate equal to the higher of 11% or the 90 day average of the 10 year U.S. Treasury Note plus 650 basis points, which is payable and resets quarterly. These notes were converted to common stock on June 30, 2008.

On October 25, 2007 we obtained a temporary line of credit from BOCO Investments to fund up to \$3,000,000 on a revolving basis for a ninety day period. The temporary line helped facilitate the timing of the origination and completion of our fourth quarter projects. The line carried an interest rate equal to the higher of 11% or the 90 day average of the 10 year U.S. Treasury Note plus 650 basis points. We utilized \$1,150,000 from this line which was repaid in January, 2008.

On June 4, 2008, we signed a promissory note to borrow from BOCO Investments, LLC up to \$1,000,000 for a period of up to ninety days at an interest rate of six percent per annum. This Note is senior to all of our other obligations except our credit agreements with Vectra Bank Colorado and United Western Bank. GDBA Investments, LLLP and BOCO Investments, LLC. have each agreed to subordinate their respective other credit agreements with us to this new promissory note. As of June 30, 2008 \$750,000 was drawn on this note.

On June 30, 2008, BOCO Investments, LLC. and Joseph C. Zimlich each entered into agreements with us to convert all of their Series A Convertible Preferred Stock, which totaled 267,000 shares in the aggregate, to Common Shares. BOCO Investments, LLC. received 9,375,000 Common Shares for its conversion. Mr. Zimlich received 625,000 Common Shares for his conversion. The Series A Convertible Preferred Stock was retired.

In addition, BOCO Investments, LLC. agreed to convert a total of Three Million Dollars (\$3,000,000) of Subordinated Revolving Notes held by each of them into Common Shares. BOCO Investments, LLC. received 9,375,000 shares for this conversion.

Because the conversion of the subordinated debt and convertible preferred stock for BOCO Investments, LLC and Joseph C. Zimlich were deemed to be below the fair value of our common stock, we recognized \$2,518,750 of conversion expense.

We also paid accrued interest and dividends on our retired Subordinated Revolving Notes and Preferred Stock in the form of our Common Shares. BOCO Investments, LLC. received a total of 722,758 common shares for \$484,932 in accrued but unpaid interest and dividends. Mr. Zimlich received a total of 8,187 common shares for \$5,066 in accrued but unpaid dividends.

**Table of Contents****(5) Notes Receivable and Development Deposits**

During the course of acquiring properties for development, CapTerra Financial Group, Inc, on behalf of its subsidiaries and development partners, typically is required to provide capital for earnest money deposits that may or may not be refundable in addition to investing in entitlements for properties before the actual land purchase. Because these activities represent a risk of our capital in the event the land purchase is not completed, it is our policy to require our development partners to personally sign promissory notes to CapTerra Financial Group, Inc. for all proceeds expended before land is purchased. Once the land has been purchased and we can collateralize the capital invested by us, the promissory note is cancelled. CPTA had \$713,322 in earnest money deposits outstanding at June 30, 2008. These deposits were held by development partners who have each secured them through promissory notes held by us. These promissory notes are callable on demand or due within a year and carry an interest rate between 12% and 12.5% per annum.

**(6) Property and Equipment**

The Company's property and equipment consisted of the following at June 30, 2008:

|  |            |
|--|------------|
| Equipment                                      | \$ 23,277  |
| Furniture and fixtures                         | 17,396     |
| Computers and related equipment                | 35,414     |
| Software and intangibles                       | 91,964     |
|  | \$ 168,051 |
| less accumulated depreciation and amortization | (62,066)   |
|  | \$ 105,985 |

Depreciation expense totaled \$18,329 and \$14,151 for the six months ended June 30, 2008 and June 30, 2007 respectively.

**(7) 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.

**Series A Convertible Preferred Stock**

Until June 30, 2008 the Company had 517,000 shares of Series A Convertible Preferred Stock authorized and issued. On June 30, 2008, GDBA Investments, LLLP, BOCO Investments, LLC. and Joseph C. Zimlich each entered into agreements with us to convert all of their Series A Convertible Preferred Stock, which totaled 517,000 shares in the aggregate, to Common Shares. GDBA Investments, LLLP received 5,172,414 Common Shares for its conversion. BOCO Investments, LLC. received 9,375,000 Common Shares for its conversion. Mr. Zimlich received 625,000 Common Shares for his conversion. The Series A Convertible Preferred Stock was retired.

**Common Stock**

As of June 30, 2008 the Company has 50,000,000 shares of common stock that are authorized, 23,602,614 shares that are issued and outstanding at a par value of \$.001 per share.



**Table of Contents****Stock Based Compensation**

On November 8, 2006 CapTerra Financial Group, Inc.'s Board of Directors approved the issuance of options under the Corporation's 2006 Incentive Compensation Plan (the "Plan"). Under the Plan the Company is authorized to issue shares or options to purchase shares up to, but not to exceed 500,000 shares. Options granted shall not be exercisable more than ten years after the date of the grant. The exercise price of any option grant shall not be less than the fair market value of the stock price on the date of the grant.

The total amount of compensation calculated for the full amount of options granted is \$465,923. We accrue the stock based compensation expense in the periods in which the options vest. For the quarter ended June 30, 2008, we recognized \$11,480 in expense related to stock based compensation.

Stock option activity for the six-months ended June 30, 2008 is summarized as follows:

|                               | Number<br>of Options | Options Outstanding<br>Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|----------------------|---|--|---------------------------------|
| Balance at December 31, 2006  | 385,000              | 1.65  | 4.9  | 1,732,500                       |
| Activity during 2007:         |                      |   |  |                                 |
| Granted                       | 70,000               | 2.08  | 4.2  |                                 |
| Expired/Cancelled             | (26,250)             | 1.65  | 3.9  |                                 |
| Forfeited                     |                      |   |  |                                 |
| Exercised                     |                      |   |  |                                 |
| Balance, at December 31, 2007 | 428,750              | 1.72  | 3.9  |                                 |
| Activity during 2008:         |                      |   |  |                                 |
| Granted                       |                      |   |  |                                 |
| Expired/Cancelled             | (265,000)            | 1.66  | 3.6  |                                 |
| Forfeited                     |                      |   |  |                                 |
| Exercised                     |                      |   |  |                                 |
| Balance, at June 30, 2008     | 163,750              | 1.81  | 3.5  |                                 |

**Table of Contents****(8) Income Taxes**

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

|                                       |             |
|---------------------------------------|-------------|
| Deferred tax assets:                  |             |
| Impairment of asset                   |             |
| Net operating loss and carry-forwards | \$ 802,000  |
| Partnership income                    | 2,729,000   |
| Origination Fee Income                | 130,000     |
| Fixed Assets                          | (85,000)    |
| Other temporary differences           | (23,000)    |
|                                       | (67,000)    |
| <br>                                  |             |
| Valuation Allowance                   | 3,486,000   |
|                                       | (3,486,000) |
| <br>                                  |             |
| 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. As of June 30, 2008, the Company has a valuation allowance of approximately \$3.5 million.

**(9) Minority Interests**

Following is a summary of the minority interests in the equity of the Company's subsidiaries. The Company establishes a subsidiary for each real estate project. Ownership in the subsidiaries is allocated between the Company and the co-developer/contractor.

|         | Balance<br>December 31,<br>2007 | Earnings<br>allocated to<br>Minority<br>Interest | Earnings<br>disbursed/accrued for<br>Minority Interest | Balance<br>June 30,<br>2008 |
|---------|---------------------------------|--|--|-----------------------------|
| Cypress | \$ 4,594                        | \$   | \$   | \$ 4,594                    |
| Total   | \$ 4,594                        | \$   | \$   | \$ 4,594                    |

**Table of Contents**

**(10) Concentration of Credit Risk for Cash**

The Company has concentrated its credit risk for cash by maintaining deposits in financial institutions, which may at times exceed the amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation ( FDIC ). The loss that would have resulted from that risk totaled \$57,001 at June 30, 2008, for the excess of the deposit liabilities reported by the financial institution versus the amount that would have been covered by FDIC. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

**(11) Notes Payable**

**Vectra Bank Senior Credit Facility:**

On April 25, 2005, we entered into a \$10 million senior credit facility with Vectra Bank of Colorado ( Vectra 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 Vectra 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 the 30 day LIBOR plus 2.25%. Each note under the facility is for an amount, as determined by Vectra 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. Vectra Bank retains a First Deed of Trust on each property financed and the facility has the personal guarantees of GDBA and its principals.

On March 27, 2008, we executed the Third Amendment to our Credit Agreement with Vectra Bank extending the expiration of our \$10 million facility to May 31, 2009. While the terms and conditions were modified slightly from the original agreement, they are not materially different than the original agreement from 2005. Any construction issued prior to the expiration date of the Credit Agreement, will survive the expiration of the facility and will be subject to its individual term as outlined in the Credit Agreement.

As of June 30, 2008, we had one outstanding note under this facility with a principal amount totaling \$1,513,511. Total interest accrued through June 30, 2008 was \$96,346.

**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.

The United Western Facility expired on May 7, 2008 and as of June 30, 2008 we had not renewed the facility. We currently have 3 notes outstanding that were issued under the facility and each will mature one year after their respective issuance dates.

**Table of Contents**

As of June 30, 2008, we had three outstanding notes under this facility with a principal amount totaling \$4,882,038. Total interest accrued through June 30, 2008 was \$180,214.

As of June 30, 2008 our total outstanding principal and interest due on all outstanding notes payable and our annual schedule of repayment is as follows:

|                  |           | United    | Total as of   |
|------------------|-----------|-----------|---------------|
|                  | Vectra    | Western   | June 30, 2008 |
| Principal        | 1,513,511 | 4,882,038 | 6,395,549     |
| Accrued Interest | 96,346    | 180,214   | 276,560       |
| Total            | 1,609,857 | 5,062,252 | 6,672,109     |

**(12) 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 Statement of Financial Accounting Standard No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), 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.

We recognized \$595,868 of impairments for the quarter ended June 30, 2008.

**(13) Subsequent Events**

On June 30, 2008, as permitted under Colorado corporate law, a majority of our shareholders approved a reverse split of our Common Shares. The record date as set by the Board of Directors was July 20, 2008, with the reverse split to be effective as of the commencement of trading on July 21, 2008. New Common Shares were issued to shareholders in exchange for their Old Common Shares in the ratio of one New Common Share for each two Old Common Shares held, thus effecting a one-for-two reverse stock split. There was no change in the par value of the Common Shares. Fractional shares, if any were rounded up to the next whole number. The exercise price and shares issuable upon exercise of all outstanding options were otherwise be adjusted to account for the reverse stock split. Additionally, on July 21, 2008 we began trading under the trading symbol CPTA.OB.

**(14) Restatement**

The Company has restated its December 31, 2007 financial statements to correct an error in accounting for an allowance of our deferred tax asset. As of December 31, 2007 the Company did not recognize any allowance against its deferred tax asset. Originally, we determined that the weighted evidence presented did not support a conclusion to record an allowance against our deferred tax asset. After reviewing the evidence that was available for the period in question, we concluded that we had under weighted certain factors such as our four year cumulative loss position, our anticipated losses in the upcoming years and our going-concern issues and we had over weighted the fact that realization of our deferred tax asset is dependant on a turn around in operating profitability. Given these factors we concluded that it was appropriate to record a full deferred tax allowance as of December 31, 2007. The facts and circumstances that lead to the restatement of our 2007 financial statements are relevant to the second quarter of 2008 as well. Therefore, our financial statements for the quarter ended June 30, 2008 have also been restated to reflect a full valuation allowance on our deferred tax asset.

In addition, for the quarter ended June 30, 2008, we recognized a conversion expense related to the conversion of convertible preferred equity and subordinated debt into restricted common shares. This expense arose from the

valuation of the common stock issued in the conversion as compared to the value of the preferred stock and debt that was cancelled in the conversion. Our originally calculation was derived based upon applying a discount to market price of the common stock to account for the large block of restricted stock issued and low volume with which our stock traded. When reviewing this methodology during our year end, we were unable to substantiate our methodology with specific guidance issued under GAAP. We therefore are restating our June 30, 2008 financial statements based upon the recalculated conversion expense using the price of the last trade prior to the conversion for the value of the stock.

The following sets forth the effects of the restatement discussed above. Amounts reflected as As Previously Reported represent those amounts included in the Company's Form 10-Q for the period ended June 30, 2008.

Three months ended June 30, 2008

|   | As<br>Previously<br>Reported | Adjustment     | As<br>Restated |
|---|------------------------------|----------------|----------------|
| Net loss                                | \$ (1,504,557)               | \$ (2,440,140) | \$ (3,944,697) |
| Basic and diluted loss per common share | \$ (0.10)                    | \$ (0.15)      | \$ (0.25)      |
| Six months ended June 30, 2008          |                              |                |                |

|   | As<br>Previously<br>Reported | Adjustment     | As<br>Restated |
|---|------------------------------|----------------|----------------|
| Deferred tax asset                      | \$ 2,988,872                 | \$ (2,988,872) | \$             |
| Total assets                            | \$ 28,445,507                | \$ (2,988,872) | \$ 25,456,635  |
| Total shareholders' deficit             | \$ 6,799,985                 | \$ (2,988,872) | \$ 3,811,113   |
| Net loss                                | \$ (2,141,914)               | \$ (2,817,540) | \$ (4,959,454) |
| Basic and diluted loss per common share | \$ (0.14)                    | \$ (0.18)      | \$ (0.32)      |

**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**

This 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 identify 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-KSB 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.

**RECENT DEVELOPMENTS**

In the second quarter 2008, we significantly expanded our business model in order to take advantage of changed market opportunities and more efficiently and profitably deploy our capital going forward. We broadened 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 expanded our financial product offerings to focus on preferred equity, mezzanine debt and high yield bridge loans.



**Table of Contents**

In our expanded model, we are focused 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. While we continue to provide up to 100% of a project's required equity, typically our partner is contributing a meaningful amount of capital to the project. These preferred equity and mezzanine structures 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.

We are also focused on select high-yield bridge loans, whole loan acquisitions, and limited partnership interest acquisitions. Particularly in the near term, we see excellent opportunities in these areas as a result of volatile capital market conditions. Given our more nimble investment parameters and processes, we are well positioned to take advantage of such opportunities.

Our expanded strategy has required a re-tooling of our staff to incorporate a broader set of investment and product-type experience. With our refocused investment strategy, we are also able to deploy more capital with less staff, particularly in our operations and deal origination groups. Accordingly, we have reduced our staff from fifteen full time employees on December 31, 2007 to seven full time employees on June 30, 2008. We are actively working on refilling several key positions but plan to remain a streamlined organization with greater efficiencies and cost savings.

We have significantly restructured our capitalization, strengthened our balance sheet, and better positioned ourselves for future growth. On June 30, 2008, our two major investors, GDBA Investments LLLP and BOCO Investments, LLC converted \$6 million in subordinated debt to common equity shares. The interest rate on the remaining \$14 million in subordinated debt was also reduced by 500 basis points. In addition, GDBA, BOCO and Joseph Zimlich converted \$6.2 million in convertible preferred stock, which carried a 5% dividend, to common stock. These transactions have significantly reduced the Company's cost of capital, reduced the Company's interest and preferred dividend burden by over \$1.67 million per year, and restored our shareholders' equity to over \$6.5 million.

Finally, we have changed the name of our company to CapTerra Financial Group, Inc. This name change reflects an effort to present a fresh face to our target market and to re-brand as a more flexible company. Our re-branding effort also includes a redesigned website and increased focus on marketing and messaging materials.

The Company is now well positioned for scalable and profitable growth. Currently, we have over \$20 million in completed and nearly completed projects that we anticipate selling over the next several quarters as well as a strong pipeline of future potential business. We see strong opportunities for cautious, forward thinking investments in commercial real estate projects and excellent prospects for sustained, long term growth.

Our principal business address is 700 17th Street, Suite 1200, Denver, Colorado 80202.

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



**Table of Contents**

**Results of Operations**

**Results of Operations**

The following discussion involves our results of operations for the quarters ending June 30, 2008 and June 30, 2007. Our revenues for the quarter ended June 30, 2008 were \$119,788 compared to \$5,011,327 for the quarter ended June 30, 2007. We had no project sales for the quarter ended June 30, 2008 compared to four projects sold totaling \$4,924,336 for the quarter ended June 30, 2007. We anticipate project sales will increase over the next several quarters as we sell current properties available for sale. Rental income for the quarter ended June 30, 2008 was \$119,788 compared to \$15,875 for the quarter ended June 30, 2007. We had no management fees for the quarter ended June 30, 2008 compared to \$71,116 for the quarter ended June 30, 2007.

We recognize cost of sales on projects during the period in which they are sold. We had no cost of sales for the quarter ended June 30, 2008 compared to cost of sales of \$4,645,324 for the quarter ended June 30, 2007. Cost of sales will increase as projects are sold; however, all impaired projects have been written down to their market value and will have no gross profit.

Selling, general and administrative costs were \$676,633 for the quarter ended June 30, 2008 compared to selling, general and administrative costs of \$1,081,704 for the quarter ended June 30, 2007 which included a \$214,953 charge for bad debt expense. We continue to actively manage our selling, general and administrative expense although it will likely increase as we re-staff key positions.

During the quarter ended June 30, 2008 we recognized an impairment charge on four properties totaling \$595,868 compared to an impairment charge of \$1,939,513 for the quarter ended June 30, 2007 (please see footnote 12). 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 quarterly basis. We also recognized a conversion expense of \$2,518,750 for the quarter ended June 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 \$3,944,697 for the quarter ended June 30, 2008 compared to a net loss of \$1,923,109 for the quarter ended June 30, 2007. Net loss available to common shareholders, after preferred stock dividends was \$4,022,035 for the quarter ended June 30, 2008 compared to \$2,000,447 for the quarter ended June 30, 2007. On June 30, 2008, we converted all convertible preferred stock to common stock so we will not pay a preferred stock dividend going forward.

The following discussion involves our results of operations for the six months ending June 30, 2008 and June 30, 2007.

Our revenues for the six months ended June 30, 2008 were \$1,310,193 compared to \$5,239,311 for the six months ended June 30, 2007. Project sales for the six months ended June 30, 2008 were \$1,164,000 compared to \$4,924,336 for the six months ended June 30, 2007. 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 six months ended June 30, 2008 of \$146,193 compared to \$52,204 for the six months ended June 30, 2007, which is attributable to having more rent producing properties in the current six months versus the prior year. We recognized no management fee revenue for the six months ended June 30, 2008 compared to management fees of \$262,771 for the six months ended June 30, 2007.

**Table of Contents**

We recognize cost of sales on projects during the period in which they are sold. We had cost of sales of \$1,164,000 for the six months ended June 30, 2008 compared to \$4,645,324 for the six months ended June 30, 2007. Cost of sales will increase as projects are sold; however, all impaired projects have been written down to their market value and will have no gross profit.

Selling, general and administrative costs were \$1,364,640 for the six months ended June 30, 2008 compared to \$1,907,906 for the six months ended June 30, 2007, which included a \$214,953 charge for bad debt expense. We continue to actively manage our selling, general and administrative expense although it will likely increase as we re-staff key positions.

During the six months ended June 30, 2008 we recognized an impairment charge on four properties totaling \$595,868 compared to an impairment charge of \$1,939,513 for the six months ended June 30, 2007 (please see footnote 12). 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 quarterly basis. We also recognized a conversion expense of \$2,518,750 for the six-months ended June 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 \$4,959,454 for the six months ended June 30, 2008 compared to a net loss of \$2,336,575 for the six months ended June 30, 2007. Net loss available to common shareholders, after preferred stock dividends was \$5,114,129 for the six months ended June 30, 2008 compared to \$2,490,401 for the six months ended June 30, 2007. 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 \$447,200 on June 30, 2008 compared to \$2,035,620 on December 31, 2007.

Cash used in operating activities was \$3,080,820 for the six months ended June 30, 2008 compared to cash used in operating activities of \$415,601 for the six months ended June 30, 2007. This change was primarily the result of fewer projects under construction in the current period in addition to a large account receivable from a property sold in December 2007, which was collected in January 2008. Cash used in operations has typically been substantial, driven by project funding requirements and we anticipate that it will continue to be significant moving forward.

Cash provided by investing activities increased to \$216,162 for the six months ended June 30, 2008 compared to cash used in investing activities of \$456,690 for the six months ended June 30, 2007. 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. We had several promissory note repayments for the quarter ended June 30, 2008.

Cash provided by financing activities was \$1,276,238 for the six months ended June 30, 2008 compared to \$1,384,701 for the six months ended June 30, 2007. As we continue to increase our project pipeline we expect that our cash provided by financing activities will continue to be significant. We had \$250,000 of availability on our Senior Subordinated Revolving Notes and we had availability of \$8,887,500 on our Senior Credit Facilities as of June 30, 2008.

**Table of Contents**

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 continued growth.

**Recently Issued Accounting Pronouncements**

We continue to evaluate the impact of SFAS No. 141 (R), Business Combinations and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which are required to be adopted at the beginning of our 2009 fiscal year. Further information on these accounting pronouncements is located in our 2007 Form 10KSB.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the U.S. and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On January 1, 2008 the Company only partially adopted the provisions of SFAS No. 157 because of the issuance of Staff Position (the FSP) FAS 157-2, Effective Date of FASB Statement No. 157 which allows companies to delay the effective date of SFAS No. 157 for non-financial assets and liabilities. The partial adoption had no impact on the Company's consolidated financial position and results of operations. Management does not believe that the remaining provisions will have a material effect on the Company's consolidated financial position and results of operations when they become effective on January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. SFAS No. 159 is intended to improve financial reporting by allowing companies to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently and to do so without having to apply complex hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not effect disclosure requirements in other accounting standards. The Company adopted SFAS No. 159 effective for the fiscal year beginning December 29, 2007, and the adoption had no impact on the Company's consolidated financial position and results of operations.

**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.

**Table of Contents**

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.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

None.

**ITEM 4. CONTROLS AND PROCEDURES**

Not applicable

**ITEM 4T. 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 in Rules 13a -15(e) and 15(d)-15(e) under the Exchange Act), our Chief Executive Officer and the Chief Financial Officer has concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the applicable time periods specified by the SEC's rules and forms.

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.

**Table of Contents**

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

Our revenues for the fiscal year ended December 31, 2007 were \$17,875,858. We had a net loss of \$3,959,059 for the fiscal year ended December 31, 2007. Our revenues for the quarter ended June 30, 2008 were \$119,788 compared to revenues for the quarter ended June 30, 2007 of \$5,011,327. We had a net loss of \$3,944,697 for the quarter ended June 30, 2008 compared to a net loss of \$1,923,109 for the quarter ended June 30, 2007. As of June 30, 2008 we have an accumulated deficit of \$12,226,576. 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 our year ended December 31, 2007, 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 Investments, LLLP,( GDBA ), our largest shareholder, and BOCO Investments, LLC,( BOCO ) a private Colorado limited liability company. Each has provided us with funding through a \$10 million subordinated debt vehicle and a \$3 million preferred convertible equity. In addition, BOCO has recently extended a \$3,000,000 term loan to us to facilitate the timing of the origination and completion of our fourth quarter projects. We would be unable to fund any projects if we lose our current funding commitment from these shareholders. In addition, our senior credit facility with Vectra Bank Colorado, which is renewable annually, has been guaranteed by GDBA. In any case, we expect to rely upon both GDBA and BOCO for funding commitments for the foreseeable future.

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

As of June 30, 2008, we had total indebtedness under our various credit facilities of approximately \$21.4 million. Our indebtedness could have important consequences to you. 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 compared to our competitors that may have less indebtedness.

In addition, our credit facilities permit us to incur substantial additional indebtedness in the future. As of June 30, 2008, we had approximately \$9.1 million available to us for additional borrowing under our \$25 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.

**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;

**Table of Contents**

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.

**WE PAY INTEREST ON ALL 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 \$3,046,196 in the fiscal year ended December 31, 2007 and \$595,868 through June 30, 2008. 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.

**MANAGEMENT OF POTENTIAL 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.



**Table of Contents**

**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.

**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.

**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 Mr. Peter Shepard, our President, and James W. Creamer, III, our Chief Financial Officer, could have a material, adverse impact on our operations. We have no written employment agreements with any officers and directors, including Mr. Shepard or Mr. Creamer. We have not obtained key man life insurance on the lives of any of these individuals.

**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.

**Table of Contents**

**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 has 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.

**Table of Contents**

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.

None.

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

|      |   |
|------|---|
| 21   | List of Subsidiaries  |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a)   |
|      | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a)   |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
|      | Certification of Chief 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 the following report under cover of Form 8K for the fiscal quarter ended June 30, 2008: April 29, 2008 relating to a change in our certifying accountant; and June 10, 2008 relating to our temporary line of credit with BOCO.

**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: April 15, 2009*

*By: /s/ James W. Creamer, III*  
James W. Creamer, III  
President, Chief Executive Officer,  
Treasurer, Chief Financial Officer

**Table of Contents**

EXHIBIT INDEX

|      |   |
|------|---|
| 21   | List of Subsidiaries  |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a)   |
|      | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a)   |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
|      | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |