

CAPTERRA FINANCIAL GROUP, INC.

Form 10-Q

May 13, 2010

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**  
**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly period ended**  
**March 31, 2010**  
**Commission File No. 000-50764**  
**CapTerra Financial Group, Inc.**  
 (Exact Name of Small Business Issuer as specified in its charter)

Colorado  
 (State or other jurisdiction  
 of incorporation)

20-0003432  
 (IRS Employer File Number)

1440 Blake Street, Suite 310  
 Denver, Colorado  
 (Address of principal executive offices)

80202  
 (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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

As of May 10, 2010, registrant had outstanding 23,602,614 shares of the registrant's common stock, and the aggregate market value of such shares held by non-affiliates of the registrant (based upon the closing bid price of such shares as listed on the OTC Bulletin Board on May 7, 2010) was approximately \$679,720.

Transitional Small Business Disclosure Format (check one): Yes  No

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PART I. FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS

**Table of Contents**CapTerra Financial Group, Inc.  
Consolidated Balance Sheets

	<b>March 31, 2010 (unaudited)</b>	<b>December 31, 2009</b>
Assets		
Cash and equivalents	\$ 220,769	\$ 496,943
Accounts receivable, net	1,013	16,992
Notes receivable	3,600,000	3,604,646
Property and equipment, net of accumulated depreciation	6,153	9,048
Real estate held for sale	14,096,592	14,096,592
Deposits and prepaids	35,012	53,253
<b>Total assets</b>	<b>\$ 17,959,539</b>	<b>\$ 18,277,474</b>
Liabilities and Shareholders' Deficit		
Liabilities:		
Accounts payable	\$ 59,664	\$ 77,860
Accrued liabilities	60,146	94,035
Senior subordinated revolving notes, related parties	22,949,399	22,614,259
Notes payable	5,984,309	6,014,895
<b>Total liabilities</b>	<b>29,053,518</b>	<b>28,801,049</b>
Shareholders' deficit:		
Common stock, \$.001 par value; 50,000,000 shares authorized, 23,602,614 issued and outstanding	23,603	23,603
Additional paid-in-capital	16,308,668	16,290,950
Accumulated deficit	(27,426,250)	(26,838,128)
<b>Total shareholders' deficit</b>	<b>(11,093,979)</b>	<b>(10,523,575)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$ 17,959,539</b>	<b>\$ 18,277,474</b>

See accompanying notes to consolidated financial statements

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CapTerra Financial Group, Inc.  
 Consolidated Statements of Operations  
 For the quarters ended March 31, 2010 and 2009  
 (unaudited)

	<b>For the quarters ended, March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenue:		
Sales	\$	\$ 1,992,151
Interest income note receivable		127,981
Rental income	82,918	98,023
Total revenue	82,918	2,218,155
Operating expenses:		
Cost of sales		1,967,022
Impairment loss on real estate		115,500
Selling, general and administrative	256,399	572,559
Total operating expenses	256,399	2,655,081
Loss from operations	(173,481)	(436,926)
Non-operating income/(expense):		
Interest income		2,056
Interest expense	(431,224)	(378,655)
Other income(expense)	16,583	(25,783)
Loss before income taxes	(588,122)	(839,308)
Income tax provision		
Net loss available to common shareholders	\$ (588,122)	\$ (839,308)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.04)
Basic and diluted weighted average common shares outstanding	23,602,614	23,602,614

See accompanying notes to consolidated financial statements



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CapTerra Financial Group, Inc.  
 Consolidated Statements of Cash Flows  
 For the quarters ended March 31, 2010 and 2009  
 (unaudited)

	<b>For the quarters ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (588,122)	\$ (839,308)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and write-off of assets	2,895	20,330
Impairment of real estate held for sale		115,500
Accrued interest	335,140	
Stock option compensation expense	17,718	
Warrant expense		16,156
Changes in operating assets and operating liabilities:		
Real estate held for sale		841,507
Accounts receivable	15,979	(208,124)
Notes receivable	4,646	
Deposits and prepaids	18,241	(2,418)
Accounts payable and accrued liabilities	(52,085)	(52,890)
Net cash (used in) operating activities	(245,588)	(109,247)
<b>Cash flows from financing activities:</b>		
Repayment of related party revolving notes		(1,251,636)
Proceeds from issuance of notes payable		1,311,794
Repayment of notes payable	(30,586)	
Net cash (used in) provided by financing activities	(30,586)	60,158
Net change in cash	\$ (276,174)	\$ (49,089)
<b>Cash and cash equivalents, beginning of the period</b>	<b>\$ 496,943</b>	<b>\$ 2,383,740</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 220,769</b>	<b>\$ 2,334,651</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the quarter for:		
Income taxes	\$	\$
Interest	\$ 96,071	\$

See accompanying notes to consolidated financial statements





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

**(1) Nature of Organization and Summary of Significant Accounting Policies***Organization and Basis of Presentation*

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

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of CapTerra Financial Group, Inc. and the following subsidiaries, which were active at March 31, 2010:

Name of Subsidiary Ownership

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

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

*Revenue Recognition*

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

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

*Use of Estimates*

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

Significant estimates have been made by management with respect to the fair values utilized for calculating the Company's impairments on real estate projects. For the quarters ended March 31, 2010 and 2009 we recognized \$-0- and \$115,000 respectively in impairment losses.

*Fair Value of Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, notes and accounts receivables and payables. The carrying values of assets and liabilities approximate fair value due to their short-term nature. The carrying amounts of notes payable and debt issued by financial institutions approximate fair value as of March 31, 2010 due to the notes carrying variable interest rates. The carrying value of notes payable to related parties cannot be determined due to the nature of these agreements. The Company has consistently applied this valuation technique in all the periods presented.

*Recent Accounting Pronouncements*

In January 2010, ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for the Company's fiscal year beginning January 1, 2010, with the exception of the level 3 disaggregation which is effective for the Company's fiscal year beginning January 1, 2011. The adoption had no impact on the Company's consolidated financial position, results of operations or cash flows. Refer to Note 9 Impairment of Assets for further details regarding the Company's real estate assets measured at fair value. Refer to Note 1 section Fair Value of Financials Instruments for additional details for the Company's measurement of other assets and liabilities at fair value.

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There were various other accounting standards and interpretations issued during 2010 and 2009, none of which are expected to have a material impact on the Company's consolidated financial position, operations

**Critical Accounting Policies**

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

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These relate to bad debts, impairment of intangible assets, long lived assets, and deferred income taxes 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.

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

The Company also generates minimal rental income and management fee income between the periods when a real estate project is occupied through the closing date on which the project is sold. Rental income and management fee income is recognized in the month earned.

We periodically evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and, economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. We also continually evaluate the estimated useful lives of all long-lived assets and periodically revise such estimates based on current events.

The Company evaluates the accounts receivables and note receivables on an ongoing basis. When an account is older than 30 days past due, we use the allowance method for recognizing bad debts. When an account is determined to be uncollectible, it is written off against the allowance.

Stock compensation expense recognized during the period is based on the value of share-based awards that are expected to vest during the period. As stock compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, it has not been reduced for estimated forfeitures because they are estimated to be negligible. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Deferred income taxes are provided for under the asset and liability method. Under this method, deferred tax assets, including those related to tax loss carry forwards and credits, and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that the net deferred tax asset will not be realized.

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The carrying amounts of financial assets required to be measured at fair value on a recurring basis include real estate held for sale which approximates fair value as determined by using the future expected net cashflows on the sale of the property. The valuation of real estate held for sale is considered Level 2 fair value measures under ASC 820.

**(2) Going Concern**

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

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

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

**(3) Real Estate Held for Sale**

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

As of March 31, 2010 we had ten properties classified as real estate held for sale totaling \$14,096,592 in costs, four of which, represent a total cost of \$8,050,935, were completed projects and six of which, represent a total cost of \$6,045,657, were raw land currently being marketed for sale. These properties are located in Arizona, Colorado, California, Florida, South Carolina and Utah.

**(4) Related Party Transactions**

On March 31, 2010 our outstanding principal balances on our Senior Subordinated Notes and Senior Subordinated Revolving Notes are summarized below:

	GDBA	BOCO	TOTAL
Subordinated notes	\$ 8,046,066	\$ 14,231,900	\$ 22,277,966
Accrued interest	238,476	432,957	671,433
Total senior subordinated revolving notes	\$ 8,284,542	\$ 14,664,857	\$ 22,949,399

**GDBA Investments, LLC**

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

On December 15, 2008, we signed a promissory note to borrow from GDBA up to \$500,000 for a period of up to one year at an interest rate of 6% per annum. This note has a maturity date of December 15, 2010. As of March 31, 2010 the full amount of this note was outstanding.

On April 1, 2009 the company entered into an accrued interest term note with GDBA for the accrued interest amount due through March 31, 2009 of \$319,233. The note carries a per annum interest rate of 0.76% with a maturity date of October 28, 2009. On October 28, 2009 we terminated the note and issued a new note that included the interest of \$319,233 plus the interest that was accrued for the second and third quarters of 2009 of \$226,833. The new note amount of \$546,066 carries a 6.00% interest rate and matures October 28, 2010. As of March 31, 2010 the full amount of this note was outstanding.

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Since October 1, 2009 we have accrued, but not paid the interest due to GDBA on all outstanding notes. For the quarter ended March 31, 2010, \$238,476 of interest was accrued but not paid.

### **BOCO Investments, LLC**

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

On June 4, 2008, we signed a promissory note to borrow from BOCO up to \$1,000,000 at an interest rate of 6% per annum. This note is due March 25, 2011. Under the amended agreement we issued BOCO 200,000 additional warrants to purchase our common stock at \$0.25 per share. As of March 31, 2010, the full amount of this note was outstanding.

On September 4, 2008, we signed a promissory note to borrow from BOCO up to \$4,000,000 at an interest rate of 6% per annum. This note is due April 30, 2010. As of March 31, 2010 the full amount of this note was outstanding. We are currently working with BOCO to extend this note.

On September 10, 2008, we signed a promissory note to borrow from BOCO up to \$750,000 at an interest rate of 9% per annum. The note was issued specifically for the assemblage of an additional parcel to our property held under our Esterra Mesa 1, LLC to increase the marketability of the property. The note is secured by a Pledge Agreement on the Company's membership interest in Esterra Mesa 1, LLC. This note is due March 25, 2011. Under the amended agreement we issued BOCO 150,000 additional warrants to purchase our common stock at \$0.25 per share. As of March 31, 2010, the full amount of this note was outstanding.

On December 15, 2008, we signed a promissory note to borrow from BOCO up to \$500,000 with an interest rate of 6% per annum. This note has a maturity date of December 15, 2010. As of March 31, 2010 the full amount of this note was outstanding.

On April 1, 2009 the company entered into an accrued interest term note with BOCO in the amount of \$548,897 for the accrued interest amount due through March 31, 2009 and \$15,000 for the fee due on the September 10, 2008 promissory note. The note carried a per annum interest rate of 0.76% with a maturity date of October 28, 2009. On October 28, 2009 we terminated the note and issued a new note that included the interest of \$548,897 plus the interest that was accrued for the second and third quarters of 2009 of \$433,002. The new note amount of \$981,899 carries a 6.00% interest rate and matures October 28, 2010. As of March 31, 2010 the full amount of this note was outstanding. Since October 1, 2009 we have accrued, but not paid the interest due to BOCO on all outstanding notes. For the quarter ended March 31, 2010, \$432,957 of interest was accrued but not paid.

## **(5) Shareholders' Equity**

### **Preferred Stock**

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

### **Common Stock**

As of March 31, 2010, the Company had 50,000,000 shares of common stock that are authorized, 23,602,614 shares are issued and outstanding with a par value of \$.001 per share.

### **Warrants**

During the year ended December 31, 2009, the Company issued 3,650,000 warrants issued to BOCO Investments, LLC. Total warrant expense for the year ended December 31, 2009 was \$24,224.

We issued 1,000,000 warrants to BOCO on February 25, 2009 and 1,500,000 warrants on March 31, 2009, 350,000 warrants on September 23, 2009 and 800,000 warrants on October 20, 2009.

The 1,000,000 warrants issued on February 25, 2009 had a three year maturity and an exercise price of \$0.25 per share. Given a market price of \$0.10, a risk free rate of 1.31% and a volatility input of 52.12%, the total amount expensed for these warrants was \$11,546 for the year ended December 31, 2009.





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The 1,500,000 warrants issued on March 31, 2009 had a maturity of three and one half years and an exercise price of \$0.25 per share. Given a market price of \$0.05, a risk free rate of 1.31% and a volatility input of 55.92%, the total amount expensed for these warrants was \$4,610 for the year ended December 31, 2009.

The 350,000 warrants issued on September 23, 2009 had a three year maturity and an exercise price of \$0.25 per share. Given a market price of \$0.05 per share, a risk free rate of 1.49% and a volatility input of 48.44% the total amount expensed for these warrants was \$363 for the year ended December 31, 2009.

The 800,000 warrants issued October 20, 2009 had a three year maturity and an exercise price of \$0.25 per share. Given a market price of \$0.10 per share, a risk free rate of 1.44% and a volatility input of 48.75% the total amount expensed for these warrants was \$7,705 for the year ended December 31, 2009.

For the quarter ended March 31, 2010, no additional warrant expense has been recognized.

**Stock Options**

On August 4, 2009 the Board of Directors approved the grant of 1,305,131 options to purchase common stock to our Chief Executive Officer and 261,026 options to purchase common stock to our Chief Financial Officer. Fifty percent of the options granted vested immediately and the remaining 50% will vest equally over a three year period. The options had a seven year maturity and an exercise price of \$0.49 per share, which was the market price of the stock the day of the grant. Given a risk free rate of 3.21% and a volatility input of 50.78%, the expense recognized for the quarter ended March 31, 2010 for the vested portion of the options was \$17,718. The future expense for the life of the options is expected to be \$165,600.

**(6) Notes Receivable**

On October 15, 2008 we entered into a financing with American Child Care Properties to complete the construction of three Tutor Time facilities in Las Vegas, NV. The financing was structured as a \$3.9 million note to be drawn for construction as completed in addition to various reserves. Subsequent to the issuance of this note, American Child Care Properties was acquired by RCS Capital Development, LLC. We finalized an assumption and extension agreement whereby the maturity was extended to April 15, 2010, with one optional six-month extension. Because it was also determined that there was greater capacity than would be needed on the portion that had yet to be drawn, the total loan size was decreased to \$3.6 million to better suit the needs of the borrower. The interest rate of 13.07% remains unchanged and we have a first deed of trust on two of the properties in addition to a personal guarantee from RCS Capital Development's principal. We are working with RCS to exercise the six-month extension. As of March 31, 2010, the full amount of the note was drawn.

During the course of acquiring properties for development, the Company, 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 the Company 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. The Company had \$638,297 in earnest money deposits outstanding and an allowance for the full outstanding amount as of March 31, 2010. These deposits were held by our 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.

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

Deferred Tax Assets	
Impairment of asset	\$ 4,582,000
Net operating loss and carry-forwards	5,036,000
Allowance for Doubtful Accounts	42,000
Partnership income	(119,000)
Stock Compensation Expense	111,000
Origination Fee Income	(85,000)
Fixed Assets	(24,000)
Other temporary differences	(67,000)
	9,476,000
Valuation Allowance	(9,476,000)
Total net deferred tax assets	\$

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the realization of future taxable income during the periods in which those temporary differences become deductible. Management considers past history, the scheduled reversal of taxable temporary differences, projected future taxable income, and tax planning strategies in making this assessment. A valuation allowance for deferred tax assets is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The majority of our NOL carryforwards will expire through the year 2030. The company has recognized a full valuation allowance.

**(8) Notes Payable****United Western Bank Senior Credit Facility**

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

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

As of March 31, 2010, we had two outstanding notes originally issued under this facility. One note had a principal balance of \$2,135,297 as of March 31, 2010 and matured on March 1, 2010. Total accrued interest on this note through March 31, 2010 is \$148,013. We are currently working with the bank to extend the terms on this note. The second note has a principal balance of \$3,568,995 as of March 31, 2010 and matures on March 24, 2011. Total accrued interest on this note through March 31, 2010 is \$132,004.

**(9) Impairment of Assets**

We invest significantly in real estate assets. Accordingly, our policy on asset impairment is considered a critical accounting estimate. Management periodically evaluates the Company's real estate held for sale to determine whether events or changes in circumstances indicate that a possible impairment in the carrying values of the assets has occurred. As part of this evaluation, and in accordance with FASB, the Company records the carrying value of the property at the lower of its carrying value or its estimated fair value, less estimated selling costs. The amount the Company will ultimately realize on these asset sales could differ from the amount recorded in the financial statements. The Company engages real estate brokers to assist in determining the estimated selling price or when external opinions are not available uses their own market knowledge. The estimated selling costs are based on the Company's experience with similar asset sales. The Company records an impairment charge and writes down an asset's carrying value if the carrying value exceeds the estimated selling price less costs to sell. In the Company's valuation of its impairment on real estate, level 2 inputs were utilized to determine the fair value of those assets. We recognized \$-0- and \$115,500 of impairments for the quarters ended March 31, 2010 and 2009, respectively.

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

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

**Forward-Looking Statements**

The Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements. Such forward-looking statements are based on current expectations, estimates, and projections about our industry, management beliefs, and certain assumptions made by our management. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, variations of such words, and similar expressions are intended to 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-K and any Current Reports on Form 8-K.

**Overview and History**

**HISTORY**

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

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

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

In 2008, we intended to significantly expand 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.

This expanded model 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 intend to 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. This strategy also requires fewer employees to manage allowing us to dramatically reduce our staff and lower our expenses. Our plan is to remain a streamlined organization with greater efficiencies and cost savings.

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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 LLC 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.

We also 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.

### **RECENT DEVELOPMENTS**

While we believe there continues to be significant opportunities created by the tightened credit markets, in January 2009 we made the strategic decision to take a measured approach to our growth in these markets. Rather than simultaneously working on disposing of our legacy deal portfolio, raising additional capital and pursuing new deals, we have chosen to focus on the liquidation of our existing portfolio first, freeing up existing invested capital, and then moving forward with our growth plan and actively pursuing deals. By taking this approach we can more efficiently allocate our resources and conserve cash while we free up existing capital for new deals. This approach also requires a significantly smaller staff during the initial phase. In 2009, we decreased our staff to three individuals and moved into a smaller office facility that we sub-lease, substantially decreasing our operating expenses.

In January, 2010, we entered into negotiations with a private real estate development company for the purpose of potentially acquiring that company. At the present time, we have no definitive arrangements to do so and have not finalized any material terms of the potential acquisition. However, at this time, we believe that if we do enter into a definitive agreement for acquisition, it will result in a change of control of our company. We do not know when, or if, this acquisition will ever be completed.

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

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

### **Results of Operations**

The following discussion involves our results of operations for the quarters ending March 31, 2010 and March 31, 2009.

Our revenues for the quarter ended March 31, 2010 were \$82,918 compared to \$2,218,155 for the quarter ended March 31, 2009. We sold no projects in the first quarter ended March 31, 2010 and one project for the quarter ended March 31, 2009 totaling \$1,992,151. Revenue from project sales will continue to be dependent on our ability to sell our existing properties under current market conditions. Rental income for the quarter ended March 31, 2010 was \$82,918 compared to \$98,023 for the quarter ended March 31, 2009. We had no management fees for the quarters ended March 31, 2010 and 2009. We had no financing activities for the quarter ended March 31, 2010 compared to \$127,981 for the quarter ended March 31, 2009.

We recognize cost of sales on projects during the period in which they are sold. We had \$1,967,022 of cost of sales for the quarter ended March 31, 2009. The Company's cost of sales will coincide with revenues as existing projects are sold.

Selling, general and administrative costs were \$256,399 for the quarter ended March 31, 2010 compared to selling, general and administrative costs of \$572,559 for the quarter ended March 31, 2009. We continue to actively manage our selling, general and administrative expense in order to control costs and conserve cash for the Company.

For the quarter ended March 31, 2010, our net deferred tax asset was \$ -0- consisting of \$9,476,000 of deferred taxes and a matching amount of \$9,476,000 for the tax allowance. As of March 31, 2009 we recognized a \$7,665,000 deferred tax asset and a matching deferred tax allowance for a balance of \$ -0-.

During the quarter ended March 31, 2010 we recognized \$-0- impairment expense compared to \$115,500 for the quarter ended March 31, 2009. We believe our balance sheet correctly reflects the current fair value of our projects; however, we will continue to test for impairment on each of the properties in our portfolio on a yearly basis or as triggering events occur.

We had a net loss of \$588,122 for the quarter ended March 31, 2010 compared to a net loss of \$839,308 for the quarter ended March 31, 2009. Net loss available to common shareholders was \$588,122 and \$839,308 for the quarters ended March 31, 2010 and 2009 respectively.



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### **Liquidity and Capital Resources**

Cash and cash equivalents were \$220,769 on March 31, 2010 compared to \$496,943 on December 31, 2009.

Cash used in operating activities was \$245,588 for the quarter ended March 31, 2010 compared to cash used in operating activities of \$109,247 for the quarter ended March 31, 2009. This change was primarily the result of fewer projects under construction in 2009. We anticipate our cash used in operating activities to decline substantially during the next several quarters as we focus on the disposition of our properties held for sale.

Cash provided by investing activities was \$-0- for the quarters ended March 31, 2010 and March 31, 2009.

Cash used by financing activities was \$30,586 for the quarter ended March 31, 2010 compared to cash provided by financing activities of \$60,158 for the quarter ended March 31, 2009. We anticipate our cash provided by financing activities to be insignificant during the next several quarters as we focus on the disposition of our properties held for sale.

Based on our cash balance, we may not have adequate cash available to meet all of our obligations with regard to operating capital and project equity required over the next three months. We continue to work with our existing investors and are seeking additional investors to secure the capital required to fund our operations going forward. In addition, a significant portion of our debt is short term in nature and will mature over the next twelve months. We believe that we will continue to be able to extend these various facilities as they mature; however, if we are unable to do so it would have a materially negative impact on our ability to continue our operations going forward.

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**

In January 2010, ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for the Company's fiscal year beginning January 1, 2010, with the exception of the level 3 disaggregation which is effective for the Company's fiscal year beginning January 1, 2011. The adoption had no impact on the Company's consolidated financial position, results of operations or cash flows. Refer to Note 9 Impairment of Assets for further details regarding the Company's real estate assets measured at fair value. Refer to Note 1 section Fair Value of Financials Instruments for additional details for the Company's measurement of other assets and liabilities at fair value.

There were various other accounting standards and interpretations issued during 2010 and 2009, none of which are expected to have a material impact on the Company's consolidated financial position, operations.

### **Critical Accounting Policies**

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

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These relate to bad debts, impairment of intangible assets, long lived assets, and deferred income taxes 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.



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

The Company also generates minimal rental income and management fee income between the periods when a real estate project is occupied through the closing date on which the project is sold. Rental income and management fee income is recognized in the month earned.

We periodically evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and, economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. We also continually evaluate the estimated useful lives of all long-lived assets and periodically revise such estimates based on current events.

The Company evaluates the accounts receivables and note receivables on an ongoing basis. When an account is older than 30 days past due, we use the allowance method for recognizing bad debts. When an account is determined to be uncollectible, it is written off against the allowance.

Stock compensation expense recognized during the period is based on the value of share-based awards that are expected to vest during the period. As stock compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, it has not been reduced for estimated forfeitures because they are estimated to be negligible. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Deferred income taxes are provided for under the asset and liability method. Under this method, deferred tax assets, including those related to tax loss carry forwards and credits, and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that the net deferred tax asset will not be realized.

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The carrying amounts of financial assets required to be measured at fair value on a recurring basis include real estate held for sale which approximates fair value as determined by using the future expected net cashflows on the sale of the property. The valuation of real estate held for sale is considered Level 2 fair value measures under ASC 820.

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

None.

### **ITEM 4. CONTROLS AND PROCEDURES**

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

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

This report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in the annual report on Form 10-K affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

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

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

Our revenues for the quarter ended March 31, 2010 were \$82,918. We had a net loss of \$588,122 for the quarter ended March 31, 2010. As of March 31, 2010 we have an accumulated deficit of \$27,426,250. We have been unprofitable for our three most recent fiscal year ends. We have only completed a limited number of transactions, so it continues to be difficult for us to accurately forecast our quarterly and annual revenue. However, we use our forecasted revenue to establish our expense budget. Most of our expenses are fixed in the short term or incurred in advance of anticipated revenue. As a result, we may not be able to decrease our expenses in a timely manner to offset any revenue shortfall. We attempt to keep revenues in line with expenses but cannot guarantee that we will be able to do so.

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

For the year ended December 31, 2009, 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 projects, 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.

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

We are currently dependent upon our relationships with GDBA and BOCO. We currently have \$8,046,066 in outstanding notes with GDBA and \$14,231,900 in outstanding notes with BOCO. We would be unable to fund any projects in the foreseeable future, if we lose our current funding commitment from these shareholders.

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

As of March 31, 2010, we had total indebtedness under our various credit facilities of approximately \$28,900,000. Our indebtedness could have important consequences to you. We have balances under our credit facility that will mature during the next year. There is no assurance that these notes will be renewed or extended or that the terms will be acceptable to management. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness if we do not maintain specified financial ratios, thereby reducing the availability of our cash flow for other purposes; or

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, thereby placing us at a competitive disadvantage compare to our competitors that may have less indebtedness.

As of March 31, 2010, we had no availability for additional borrowing under our various credit facilities. If we increase our indebtedness by borrowing under our various credit facilities or incur other new indebtedness, the risks described above would increase.

There is no assurance that these notes will be renewed or extended or that the terms will be acceptable to management. **MOST OF OUR INDEBTEDNESS IS SCHEDULED TO MATURE DURING OUR CURRENT FISCAL YEAR. WE CANNOT GUARANTEE THAT WE WILL BE ABLE TO RENEW, EXTEND, REFINANCE OR PAY OFF THIS INDEBTEDNESS WHEN IT BECOMES DUE. AS A RESULT, WE MAY NOT BE ABLE TO CONTINUE TO OPERATE AS A BUSINESS.**

As of March 31, 2010, we had total indebtedness under our various credit facilities of approximately \$28,900,000. Most of the balances under our various agreements will mature during the next year. A total of \$8,811,275 in debt must be renewed, extended, refinanced, or paid off, prior to December 31, 2010. There is no assurance that any of this indebtedness will be renewed, extended, refinanced, or paid off. If we cannot successfully renew, extend, refinance, or pay off our indebtedness when it matures, we may not be able to continue to operate as a business.

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

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

- incur additional indebtedness;

- make capital expenditures and other investments above a certain level;

- merge, consolidate or dispose of our assets or the capital stock or assets of any subsidiary;

- pay dividends, make distributions or redeem capital stock in certain circumstances;

- enter into transactions with our affiliates;

- grant liens on our assets or the assets of our subsidiaries; and

make or repay intercompany loans.



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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 A MAJORITY OF OUR CREDIT FACILITIES AT VARIABLE RATES, RATHER THAN FIXED RATES, WHICH COULD AFFECT OUR PROFITABILITY.**

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

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

We have only been in business since 2003. We do not have a significant track record and may be unable to sell properties in our inventory. We have already experienced impairments to our assets of approximately \$13 million as of March 31, 2010. We may incur additional impairments in the future. We may be forced to sell properties at a loss. Furthermore, in order to sell properties for a profit, we may be forced to hold properties for longer periods that we plan, which may require the need for additional financing sources. Any of these conditions would likely result in reduced operating profits and could likely strain current funding agreements.

**WE MAY NOT BE ABLE TO MANAGE OUR GROWTH.**

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

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

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

**WE HAVE A LACK OF INDEPENDENT DIRECTORS.**

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



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**THERE ARE POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS.**

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

**OUR SUCCESS WILL BE DEPENDENT UPON OUR OPERATING PARTNERS' EFFORTS.**

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

**OUR SUCCESS WILL BE DEPENDENT UPON OUR MANAGEMENT'S EFFORTS.**

Our success will be dependent upon the decision making of our directors and executive officers. These individuals intend to commit as much time as necessary to our business, but this commitment is no assurance of success. The loss of any or all of these individuals, particularly James W. Creamer, III, our President and Chief Executive Officer, and Ms. Joni Troska, our Treasurer and 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. Creamer or Ms. Troska. We have not obtained key man life insurance on the lives of any of these individuals.

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

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

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

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

actual or anticipated fluctuations in our operating results;

change in financial estimates by securities analysts or our failure to perform in line with such estimates;

changes in market valuations of other real estate oriented companies, particularly those that market services such as ours;

announcements by us or our competitors of significant innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

introduction of technologies or product enhancements that reduce the need for our services;

the loss of one or more key customers; and

departures of key personnel.

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

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

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

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

**WE DO NOT EXPECT TO PAY CASH DIVIDENDS ON COMMON STOCK.**

We have not paid any cash dividends with respect to our common stock, and it is unlikely that we will pay any cash dividends on our common stock in the foreseeable future. Earnings, if any, that we may realize will be retained in the business for further development and expansion.

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

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**

21	List of Subsidiaries
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

**Reports on Form 8-K**

We filed one report under cover of Form 8-K for the fiscal quarter ended March 31, 2010, on January 26, 2010, relating to negotiations regarding a potential acquisition.

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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: May 13, 2010*

By: /s/ James W Creamer III  
James W Creamer III  
President & CEO

CAPTERRA FINANCIAL GROUP, INC.

*Dated: May 13, 2010*

By: /s/ Joni K Troska  
Joni K Troska  
Chief Financial Officer

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**EXHIBIT INDEX**

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