CAPTERRA FINANCIAL GROUP, INC.
Form 10-Q
November 14, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly period ended September 30, 2008

o **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.

(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 þ No o

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

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

The number of shares outstanding of the Registrant s common stock, as of the latest practicable date, November 10, 2008, was 23,602,614.

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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

CapTerra Financial Group, Inc.

Consolidated Balance Sheets

	September 30 2008 (unaudited)	December 31, 2007 (audited)
Assets		
Cash and Equivalents	$ 781,048	$ 2,035,620
Deposits held by an affiliate	707,292	940,880
Accounts Receivable, net	78,385	2,156,959
Property and equipment, net of accumulated depreciation	98,461	112,918
Real estate held for sale	14,627,963	14,398,602
Construction in progress	2,376,675	2,484,179
Land held for development	2,660,607	5,388,089
Deferred tax asset, net of valuation allowance	3,364,000	2,108,832
Deposits and prepaids	35,611	48,451
Total assets	$ 24,730,042	$ 29,674,530
Liabilities and Shareholders Equity		
Liabilities		
Accounts payable	$ 75,222	$ 262,209
Accrued liabilities	57,884	416,583
Dividends payable		78,187
Senior subordinated note payable, related parties	1,500,000	7,000,000
Senior subordinated revolving note, related parties	14,242,835	14,169,198
Note payable	6,308,617	5,716,397
Unearned Revenue		522,841
Total liabilities	22,184,558	28,165,415
Shareholders equity		
Non controlling interest		4,594
Convertible preferred stock, $.10 par value; 1,000,000 shares authorized, 517,000 shares issued and outstanding December 31, 2007, -0- shares issued and outstanding September 30, 2008		51,700
Common stock, $.001 par value; 50,000,000 shares authorized, 16,036,625 shares issued and outstanding December 31, 2007 23,602,614 shares issued and outstanding September 30, 2008	23,603	16,037
Additional paid-in-capital	14,081,937	6,440,398
Retained earnings	(11,560,056)	(5,003,614)
Total shareholders equity	2,545,484	1,509,115

Total liabilities and shareholders equity	$ 24,730,042	$ 29,674,530

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue:				
Sales	$ 3,171,409	$ 815,000	$ 4,381,723	$ 5,739,336
Financing activities	45,691	10,314	38,090	58,487
Rental income	116,570	51,283	224,048	103,487
Management fees		148,383		362,981
Total revenue	3,333,670	1,024,980	4,643,861	6,264,291
Operating expenses:				
Cost of sales	2,954,748	815,000	4,118,748	5,460,324
Impairment loss on real estate	4,156,444	(40,868)	4,752,312	1,898,645
Conversion expense			581,250	
Selling, general and administrative	579,167	748,078	1,943,805	2,655,984
Total operating expenses	7,690,359	1,522,210	11,396,115	10,014,953
Loss from operations	(4,356,689)	(497,230)	(6,752,254)	(3,750,662)
Non-operating expense:				
Interest income	931	6,641	9,394	7,535
Interest expense	(278,133)		(912,987)	(275,730)
Other income (expense)		(100,413)		(1,570)
Loss before income taxes and non controlling interest	(4,633,891)	(591,002)	(7,655,847)	(4,020,427)
Income tax provision	(374,039)	(360,880)	(1,254,079)	(1,527,480)
Loss before non controlling interest	(4,259,852)	(230,122)	(6,401,768)	(2,492,947)
Non controlling interest in income of consolidated subsidiaries				73,751
Net loss	$ (4,259,852)	$ (230,122)	$ (6,401,768)	$ (2,566,698)
Preferred stock dividends		(78,186)		(232,012)
Net loss available to common shareholders	$ (4,259,852)	$ (308,308)	$ (6,401,768)	$ (2,798,710)

Basic and diluted loss per common share	$ (0.18)	$ (0.02)	$ (0.27)	$ (0.17)
Basic and diluted weighted average common shares outstanding	23,602,614	16,036,625	23,602,614	16,036,625

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net loss	(6,401,766)	$ (2,566,698)
Adjustments to reconcile net income to net cash used by operating activities:		
Deferred income taxes	(1,254,079)	
Depreciation	25,853	28,472
Impairment of assets	4,752,312	1,898,645
Allowance for bad debt		215,953
Conversion expense	581,250	
Stock option compensation expense	43,568	98,297
Changes in operating assets and operating liabilities:		
Construction in progress	(4,644,808)	(4,354,196)
Real estate held for sale	(229,361)	(9,706,445)
Land held for development	2,727,482	661,932
Accounts receivable	2,078,574	(255,958)
Deposits and prepaids	12,840	34,567
Accounts payable and accrued liabilities	(546,775)	551,658
Income tax assets and liabilities		(1,475,897)
Unearned revenue	(522,841)	
Non-controlling interest	(4,594)	
Net cash (used in) operating activities	(3,382,346)	(14,869,670)
Cash flows from investing activities:		
Payment of deposits		86,791
Cash collections on notes receivable	365,025	
Issuance of notes receivable	(131,437)	
Cash paid for disposal of property and equipment	(11,396)	(57,296)
Net cash provided by investing activities	222,192	29,495
Cash flows from financing activities:		
Preferred stock dividends paid	(78,187)	(233,711)
Proceeds from issuance of related party loans	12,638,861	12,200,000
Repayment of related party loans	(11,247,313)	(3,400,000)
Proceeds from issuance of notes payable	3,016,292	8,854,866
Repayment of notes payable	(2,424,072)	(1,961,403)
Net cash provided by financing activities	1,905,582	15,459,752
Net change in cash	(1,254,572)	619,577

Cash and cash equivalents, beginning of the period	2,035,620			1,097,440
Cash and cash equivalents, end of the period	781,048		$	1,717,017
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Income taxes	(1,089)		$	1,000
Interest			$	780,981
Supplemental disclosure of non-cash investing and financing activities				
Preferred stock dividends declared but not paid			$	232,012
Conversion of related notes payable to common stock	6,817,912		$	

See accompanying notes to condensed consolidated financial statements.

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

Organization and Basis of Presentation

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CapTerra Financial Group, Inc. and the following subsidiaries, which were active at September 30, 2008:

Name of Subsidiary Ownership

Name of Subsidiary	Ownership
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%
53rd and Baseline, LLC (Baseline)	51.00%
Hwy 278 and Hwy 170, LLC (Bluffton)	51.00%
State and 130th, LLC (American Fork)	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%
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%

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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. For the nine months ended September 30, 2008 the Company recorded an additional $4,752,312 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.

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(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 September 30, 2008 we had two projects categorized as current development projects totaling $5,037,282, which was comprised of $2,660,607 in land and $2,376,675 of construction in progress. These properties are in the later stages of construction and are located in California and Louisiana. They represent leases from Lone Star Steakhouse and 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 September 30, 2008 we had twelve properties classified as real estate held for sale totaling $14,627,963 in costs, three of which were completed projects and seven of which were raw land currently being marketed for sale. The completed projects total $7,164,166 with tenants that include corporate lease and franchisees for Fed Ex Kinko s, Starbucks, Criket Wireless, Mexicali Cafe and Shell Oil and are in Arizona, Colorado, Indiana and Utah. Land that is currently for sale totals $7,463,797 and is located in Arizona, Colorado, Florida and South Carolina.

(4) Related Party Transactions

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

	GDBA Investments	BOCO Investments	Total
Revolving Lines of Credit	7,000,000	7,000,000	14,000,000
BOCO Note Payable		750,000	750,000
BOCO Note Payable		750,000	750,000
Accrued Interest	105,862	136,973	242,835
Senior subordinated revolving notes related parties	$ 7,105,862	$ 8,636,973	$ 15,742,835

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

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.

On June 30, 2008 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.

A total of Seven Million Dollars ($7,000,000) of our remaining debt to GDBA Investments, LLLP each evidenced by a Senior Subordinated Note in the amount of Three Million Five Hundred Thousand Dollars ($3,500,000) and a Revolving Note in the amount of Three Million Five Hundred Thousand Dollars ($3,500,000) were converted into one Seven Million Dollar ($7,000,000) Revolving Note. The Seven Million Dollar ($7,000,000) Revolving Note matures on September 28, 2009. Each Senior Subordinated Note and old Revolving Note was canceled.

On June 30, 2008 we 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.

As of September 30, 2008 we have $7,000,000 in principal and $105,862 in interest payable to GDBA Investments, LLLP.

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.

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. On September 2, 2008 BOCO Investments, LLC extended the maturity of the note for an additional six-month period. As of September 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.

On June 30, 2008 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.

A total of Seven Million Dollars ($7,000,000) of our remaining debt to BOCO Investments, LLC each evidenced by a Senior Subordinated Note in the amount of Three Million Five Hundred Thousand Dollars ($3,500,000) and a Revolving Note in the amount of Three Million Five Hundred Thousand Dollars ($3,500,000) were converted into one Seven Million Dollar ($7,000,000) Revolving Note. The Seven Million Dollar ($7,000,000) Revolving Note matures on September 28, 2009. Each Senior Subordinated Note and old Revolving Note was canceled.

On June 30, 2008 we 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.

On September 4, 2008, we signed a promissory note to borrow from BOCO Investments, LLC up to $4,000,000 for a period of up to six-months at an interest rate of six percent per annum. On September 30, 2008, there was no outstanding balance on the note.

On September 10, 2008, we signed a promissory note to borrow from BOCO Investments, LLC up to $750,000 for a period of up to six-months at an interest rate of nine percent 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 of even date on the Company s membership interest in Esterra Mesa 1, LLC.

As of September 30, 2008 we have $8,500,000 in principal and $136,973 in interest payable to BOCO Investments, LLC.

(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 $707,292 in earnest money deposits outstanding at September 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 September 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		(69,590)
	$	98,461

Depreciation expense totaled $25,853 and $28,472 for the nine months ended September 30, 2008 and September 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

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.

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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 issue shares or options to purchase shares up 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 recognize compensation expense over the periods in which the options vest. For the quarter ended September 30, 2008, we recognized $9,945 in expense related to stock based compensation.

Stock option activity for the nine months ended September 30, 2008 is summarized as follows:

	Options Outstanding			
	Number of Options	Weighted Average Exercise Price	Weighted Remaining Contractual Term	Aggregate Intrinsic Value
Balance, at December 31, 2007	214,375	3.44	3.9	
Activity during 2008:				
Granted				
Expired/Cancelled	(152,500)	3.32	3.2	
Forfeited				
Exercised				
Balance, at September 30, 2008	61,875	3.62	3.2	

(8) Income Taxes

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

Deferred tax assets:	
Impairment of asset	2,499,825
Net operating loss and carry-forwards	2,891,790
Partnership income	130,229
Origination Fee Income	(84,529)
Depreciation	(23,352)
Other temporary differences	(49,964)
	5,364,000
Valuation Allowance	(2,000,000)
Total net deferred tax assets	3,364,000

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. Although it is the full intention of the Company, that any carryback and carryforward amounts will be utilized against future taxable income, we are not certain that we will be able to use the entire amount and, accordingly, have recorded a valuation allowance of $2,000,000 at September 30, 2008.

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Given the complexities of tax laws and FASB 109 and the fact that there is a degree of interpretation and subjectivity, it has been our policy to hire a third party CPA firm for our tax work and FASB 109 calculation. During the quarter ended September, 30, 2008, we changed to a new CPA firm to perform these services.

During their review of our past calculations to tie into the current quarter, they disagreed with the FASB 109 calculation made by our former CPA firm for the year ended December 31, 2007. After detailed consultation with our new CPA firm, the Company believes there is a variance which understated the tax benefit and overstated the net loss on the income statement by $498,000, and understated the deferred tax asset on the balance sheet by $498,000.

Because we discovered the issue while analyzing our deferred tax asset for the quarter ended September 30, 2008 and the Company had already determined the need for a valuation allowance, we have adjusted the deferred tax asset accordingly. The Company increased the valuation allowance by $498,000 which is included in the total valuation allowance of $2,000,000.

(9) Noncontrolling Interests

Following is a summary of the noncontrolling 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 December 31, 2007	Earnings allocated to Noncontrolling Interest	Earnings disbursed/accrued for Noncontrolling Interest	Balance September 30, 2008
Cypress	$ 4,594	$	$ (4,594)	$
Total	$ 4,594	$	$ (4,594)	$

(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 $31,686 at September 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.

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As of September 30, 2008, we had no outstanding notes under this facility.

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 September 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, each are eligible for one six-month extension.

As of September 30, 2008, we had three outstanding notes under this facility with a principal amount totaling $6,053,752. Total interest accrued through September 30, 2008 was $254,865.

(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 $4,156,444 of impairments for the quarter ended September 30, 2008.

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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

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 i such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. However, readers should carefully review the risk factors set forth herein and in other reports and documents that we file from time to time with the Securities and Exchange Commission, particularly the Annual Reports on Form 10-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.

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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.

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.

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Results of Operations

Results of Operations

The following discussion involves our results of operations for the quarters ending September 30, 2008 and September 30, 2007.

Our revenues for the quarter ended September 30, 2008 were $3,333,670 compared to $1,024,980 for the quarter ended September 30, 2007. We sold two projects for the quarter ended September 30, 2008 totaling $3,171,409 compared to one project totaling $815,000 for the quarter ended September 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 September 30, 2008 was $116,570 compared to $51,283 for the quarter ended September 30, 2007. We had no management fees for the quarter ended September 30, 2008 compared to $148,383 for the quarter ended September 30, 2007. We had financing activities totaling $45,691 for the quarter ended September 30, 2008 compared to $10,314 for the quarter ended September 30, 2007.

We recognize cost of sales on projects during the period in which they are sold. We had $2,954,748 of cost of sales for the quarter ended September 30, 2008 compared to $815,000 for the quarter ended September 30, 2007. Cost of sales will likely increase along with revenues as existing projects are sold.

Selling, general and administrative costs were $579,167 for the quarter ended September 30, 2008 compared to selling, general and administrative costs of $748,078 for the quarter ended September 30, 2007. 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 September 30, 2008 we recognized an impairment charge totaling $4,156,444 compared to an impairment recovery of $40,868 for the quarter ended September 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 had an income tax benefit of $374,039 for the quarter ended September 30, 2008 compared to an income tax benefit of $360,880 for the quarter ended September 30, 2007. The income tax benefit for the quarter ended September 30, 2008 was after the effect of a $2,000,000 valuation allowance against our deferred tax asset taken on September 30, 2008, which included a $498,000 adjustment for the year ended December 31, 2007. The Company determined that an allowance is needed related to the recognition of its deferred tax asset based on the continuing deterioration of the commercial real estate market combined with the tightening credit markets in the third quarter.

We had a net loss of $4,259,852 for the quarter ended September 30, 2008 compared to a net loss of $230,122 for the quarter ended September 30, 2007. Net loss available to common shareholders, after preferred stock dividends was $4,259,852 for the quarter ended September 30, 2008 compared to $308,308 for the quarter ended September 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 nine months ending September 30, 2008 and September 30, 2007.

Our revenues for the nine months ended September 30, 2008 were $4,643,861 compared to $6,264,291 for the nine months ended September 30, 2007. Project sales for the nine months ended September 30, 2008 were $4,381,723 compared to $5,739,336 for the nine months ended September 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 nine months ended September 30, 2008 of $224,048 compared to $103,487 for the nine months ended September 30, 2007, which is attributable to having more rent producing properties in the current nine months versus the prior year. We recognized no management fee revenue for the nine months ended September 30, 2008 compared to management fees of $362,981 for the nine months ended September 30, 2007.

We recognized financing activities totaling $38,090 for the nine months ended September 30, 2008 compared to $58,487 for the nine months ended September 30, 2007.

We recognize cost of sales on projects during the period in which they are sold. We had cost of sales of $4,118,748 for the nine months ended September 30, 2008 compared to $5,460,324 for the nine months ended September 30, 2007. Cost of sales will likely increase along with revenues as existing projects are sold.

Selling, general and administrative costs were $1,943,805 for the nine months ended September 30, 2008 compared to $2,655,984 for the nine months ended September 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 nine months ended September 30, 2008 we recognized an impairment charge totaling $4,752,312 compared to an impairment charge of $1,898,645 for the nine months ended September 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 had an income tax benefit of $1,254,079 for the nine-months ended September 30, 2008 compared to an income tax benefit of $1,527,480 for the nine-months ended September 30, 2007. The income tax benefit for the nine-months ended September 30, 2008 was after the effect of a $2,000,000 valuation allowance against our deferred tax asset taken on September 30, 2008, which included a $498,000 adjustment for the year ended December 31, 2007. The Company determined that an allowance is needed related to the recognition of its deferred tax asset based on the continuing deterioration of the commercial real estate market combined with the tightening credit markets in the third quarter.

We had a net loss of $6,401,768 for the nine months ended September 30, 2008 compared to a net loss of $2,566,698 for the nine months ended September 30, 2007. Net loss available to common shareholders, after preferred stock dividends was $6,401,768 for the nine months ended September 30, 2008 compared to $2,798,710 for the nine months ended September 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 $781,048 on September 30, 2008 compared to $2,035,620 on December 31, 2007.

Cash used in operating activities was $3,382,346 for the nine months ended September 30, 2008 compared to cash used in operating activities of $14,869,670 for the nine months ended September 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 $222,192 for the nine months ended September 30, 2008 compared to cash used in investing activities of $29,495 for the nine months ended September 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 September 30, 2008.

Cash provided by financing activities was $1,905,582 for the nine months ended September 30, 2008 compared to $15,459,752 for the nine months ended September 30, 2007. As we continue to fund our project pipeline we expect that our cash provided by financing activities will continue to be significant. As of September 30, 2008 we had $4,250,000 of availability on our Senior Subordinated Notes; however, $4,000,000 is designated to fund a specific project. We had availability of $10,000,000 on our Senior Credit Facilities as of September 30, 2008.

Based on our cash balance and our availability on our Senior Subordinated Notes as of September 30, 2008, 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. Over the next twelve months, we will likely require approximately $2 million to fund our operations. We continue to work with our existing investors and are seeking additional investors to secure the capital required to fund 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

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.

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.

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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 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 September 30, 2008 were $3,333,670 compared to revenues for the quarter ended September 30, 2007 of $1,024,980. We had a net loss of $2,768,931 for the quarter ended September 30, 2008 compared to a net loss of $230,122 for the quarter ended September 30, 2007. As of September 30, 2008 we have an accumulated deficit of $4,910,847. 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.

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 September 30, 2008, we had total indebtedness under our various credit facilities of approximately $22.0 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 September 30, 2008, we had approximately $14.25 million available to us for additional borrowing under our $29.8 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;
- 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 $4,752,312 through September 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.

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.

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.

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)
31.2	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
32.2	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 reports under cover of Form 8K for the fiscal quarter ended September 30, 2008: July 21, 2008, relating to a reverse split of our common stock; and September 3, 2008 relating to the departure of a principal officer.

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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: November 14, 2008	By: /s/ Peter Shepard Peter Shepard President, Chief Executive Officer,
Dated: November 14, 2008	By: /s/ James W Creamer III James W Creamer III Treasurer, Chief Financial Officer

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