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

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

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to __________

Commission File Number: 000-50764

CapTerra Financial Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

See accompanying notes to condensed consolidated financial statements

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

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

Basic and diluted weighted average common shares outstanding

See accompanying notes to condensed consolidated financial statements

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

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

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

See accompanying notes to condensed consolidated financial statements

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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 September 30, 2009:

Name of Subsidiary Ownership

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

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

Revenue Recognition

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

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

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Use of Estimates

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

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

Fair Value of Financial Instruments

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

Recent Accounting Pronouncements

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

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

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

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

(2) Going Concern

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

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

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

(3) Real Estate Held for Sale

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

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

(4) Related Party Transactions

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

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

GDBA Investments, LLLP

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

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

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

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

BOCO Investments, LLC

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

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

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

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

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

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

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

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

(5) Shareholders Equity

Preferred Stock

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

Common Stock

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

Warrants

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

Stock Options

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

(6) Notes Receivable

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

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(7) Income Taxes

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

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

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

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

(8) Notes Payable

United Western Bank Senior Credit Facility

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

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

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

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(9) Impairment of Assets

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

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

(10) Subsequent Events

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

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

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

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

Forward-Looking Statements

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

Overview and History

HISTORY

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

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

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

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

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

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RECENT DEVELOPMENTS

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

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

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

Results of Operations

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

We recognize cost of sales on projects during the period in which they are sold. We had $-0- of cost of sales for the quarter ended September 30, 2009 and $2,954,748 for the quarter ended September