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

Table of Contents

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.

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

Table of Contents

PART I FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS

CapTerra Financial Group, Inc.

Consolidated Balance Sheets

	September 30 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Organization and Basis of Presentation

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

Principles of Consolidation

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

Table of Contents

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

Use of Estimates

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

Significant estimates have been made by management with respect to the fair values utilized for calculating the Company s impairments on real estate projects. During the year ended December 31, 2007 the Company recorded impairment losses totaling $3,046,196. 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.

Table of Contents

(2) Current Development Projects

Current development projects are divided into two line items on our balance sheet, land held for development and construction in progress , which is made up of all hard costs, soft costs and financing costs that are capitalized into the project. As of 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.

Table of Contents

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