CAPTERRA FINANCIAL GROUP, INC.
Form 10-K/A
July 02, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 3)

(Mark One)

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

For the fiscal year ended: December 31, 2007

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: 0-50764

CapTerra Financial Group, Inc.
Formerly Known As
Across America Real Estate Corp.
(Exact name of small business issuer 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, Colorado**	**80202**
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, $.0.001 per share par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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 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 (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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Registrant s revenues for its most recent fiscal year were $4,799,708. The aggregate market value of the voting stock of the Registrant held by non-affiliates as of April 9, 2008 was approximately $95,960. The number of shares outstanding of the Registrant s common stock, as of the latest practicable date, April 9, 2009, was 23,602,614.

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EXPLANATORY NOTE

This Amendment on Form 10-K/A constitutes Amendment No. 3 to the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007 filed CapTerra Financial Group, Inc, formerly known as Across America Real Estate Corp.. (the Company) originally with the Securities and Exchange Commission on March 31, 2008 (the Annual Report). This Amendment is being filed for the sole purpose to amend the Report of Independent Registered Public Accounting Firm.

Except as described above, this Amendment does not change any previously reported financial results, modify or update disclosures in the Annual Report, or reflect events occurring after the date of the filing of the Annual Report.

FORM 10-KSB
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ITEM 1. DESCRIPTION OF BUSINESS.

(a) **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 $6,067,891 for the fiscal year ended December 31, 2007. Our revenues for the fiscal year ended December 31, 2006 were $8,459,994. We had a net loss of $735,771 for the fiscal year ended December 31, 2006. 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 audit dated 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.

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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-suit projects for specific national retailers, must be considered an extremely risky business, 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 December 31, 2007, we had total indebtedness under our various credit facilities of approximately $26.8 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 December 31, 2007, we had approximately $23.2 million available to us for additional borrowing under our $48 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.

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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 this fiscal year and 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.

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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.

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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.

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

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

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

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

(b) **NARRATIVE DESCRIPTION OF THE BUSINESS**

General

We have ongoing revenue-producing operations but were currently unprofitable as of our two most recent fiscal year ends. We act as a co-developer, principally as a financier, for built-to-suit real estate development projects for retailers who sign long-term leases for use of the property. We plan to create each project such that it will generate income from the placement of the construction loan, current income during the period in which the property is held, and the capital appreciation of the facility upon sale. Affiliates and management of ours will develop the construction and permanent financing for our benefit.

All of our operations are located in the United States. We plan to use our status as a public company to expand our operations. However, there can be no assurance that this objective will be achieved.

Organization

As of March 27, 2008 we are comprised of one corporation with thirty two subsidiaries. Because we create a separate subsidiary for each project we intend to develop, we continue to grow the number of subsidiaries we consolidate into the corporation.

On January 10, 2007, our directors approved, subject to the effectiveness of a registration with the Securities and Exchange Commission, a spin-off to our shareholders of record as of March 1, 2007 (the Record Date), on a pro rata basis, with one share each of Across America Real Estate Exchange, Inc. and Across America Financial Services, Inc. to be issued for each ten shares issued and outstanding of our common stock or common stock upon conversion of our preferred stock owned by such shareholders as of the Record Date. The registration statements of Across America Real Estate Exchange, Inc. and Across America Financial Services, Inc. became effective on February 21, 2007 and March 19, 2007, respectively. The new shares of Across America Real Estate Exchange, Inc. and Across America Financial Services, Inc. were distributed to our shareholders on or about March 23, 2007.

We file under the Securities Exchange Act of 1934 (the 1934 Act)on a voluntary basis because we plan to engage in equity and/or debt financing in the foreseeable future and believe that our fund raising will be enhanced by having a record of regular disclosure under the 1934 Act. We have no plans in the foreseeable future, under any circumstances, to terminate our registration under the 1934 Act.

(c) **OPERATIONS**

We act as a co-developer, including as a financier, to develop built-to-suit real estate projects for specific retailers and other tenants who sign long-term leases for use of the property. Our primary source of revenue is from profits we receive upon the sale of our projects upon completion; however we also receive revenue from preferred dividends on our invested capital in projects, management fees we charge to our projects and rental income from our completed projects before their disposition. In addition we may share in certain revenues directly related to our projects with our development partners such as development fees and leasing and sales commissions.

Our activities include raw land acquisition and facility construction. In such a situation, we provide construction and property management expertise in exchange for an equity interest in the property. We also develop projects with construction and permanent financing to be obtained through the efforts of our management and affiliates. To date, we have hired third party contractors to work on our projects but plan eventually to use our own staff as well.

We are currently focused on the development of build-to-suit single pad, small box retail projects for national and regional retailers throughout the United States. We operate primarily in the sale-leaseback market whereby the retailers sign long term leases prior to development and our majority-owned subsidiary constructs the project with the intent of selling the property to third party investors upon project completion. During 2007 we had activities ranging from the preliminary stage of the development process to completed projects in Arizona, California, Colorado, Florida, Georgia, Indiana, Kansas, South Carolina, Texas, Utah, Nevada and Washington. To date our projects have included Advanced Auto Parts, Starbuck s, Fed Ex Kinko s, Champps Americana, Boston Pizza, Goddard Schools, AT&T Wireless, Aspen Dental, IHOP Restaurant, Lone Star Steakhouse & Saloon, Grease Monkey, Family Dollar Stores, and Checker Auto Parts. We have generally acquired our projects through the relationships of our development partners. During 2007 our strategy on increasing our project pipeline centered on increasing the number of our development partners in addition to increasing the number of projects annually with our existing development partners.

In all of our transactions with affiliates, we examine current market conditions and attempt to develop terms and conditions no less favorable than could be negotiated in an arms-length transaction.

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, which may include efforts to increase our senior and subordinated debt lines in addition to efforts to raise additional capital through a number of sources, including, but not limited to, equity or debt offerings, borrowings, or joint ventures.

In addition we may expand through acquisition. We may not only look at our present industry but we will reserve the right to investigate and, if warranted, could merge with or acquire the assets or common stock of an entity actively engaged in business which generates revenues. We will seek opportunities for long-term growth potential as opposed to short-term earnings. As of the date hereof, we have no business opportunities under investigation. None of our officers, directors, promoters or affiliates have engaged in any preliminary contact or discussions with any representative of any other company regarding the possibility of an acquisition or merger between us and such other company.

Funding:

We divide our funding sources into two general pools:

1 Equity and Subordinated Debt

2 Senior Debt

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We utilize our Equity and Subordinated Debt to make initial land purchases, to fund pre-construction costs and to satisfy the equity requirements for our senior line. We utilize our Senior Debt to fund up to 75% of total development costs once certain conditions have been met and construction has begun.

Equity and Subordinated Debt:

On November 26, 2004 we entered into a three-year Agreement to Fund our real estate projects with GDBA Investments, LLLP (GDBA), our largest shareholder. Under this agreement, GDBA issued a Subordinated Debt Line, which allowed us to borrow up to $10 million to fund build-to-suit retail projects. This Agreement to Fund is no longer in effect.

On September 27, 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 Joseph Zimlich, BOCO Investments, LLC s CEO purchased 17,000 shares of Series A Convertible Preferred Stock at $12.00 per share in his own name.

On September 27, 2006, simultaneous to the BOCO Investment private placement, GDBA Investments replaced its prior Agreement to Fund with a new investment structure to mirror the BOCO investment that also included 250,000 shares of Series A Convertible Preferred Stock at $12.00 per share, $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. The revolving feature on the Revolving Notes expired on December 31, 2007. However, the Revolving Notes will remain fully drawn until their maturity.

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. 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. The revolving feature on the Revolving Notes expired on December 31, 2007, but the notes remain outstanding and fully drawn until they mature on September 28, 2009.

On April 14, 2007 we completed an additional $6 million funding with both GDBA Investments and BOCO Investments consisting of $3 million each 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. The notes had a maturity date of December 31, 2007; however, on December 18, 2007 both GDBA and BOCO agreed to extend the maturity date to 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 by the January 23, 2008 maturity date.

Senior Credit Facilities:

Vectra Bank:

On April 25, 2005, we received a $10,000,000 financing commitment under a Credit Agreement from 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. 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 owners.

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This financing commitment is annually renewable. On March 27, 2008, we executed the Third Amendment to our Credit Agreement extending the expiration of the facility to May 31, 2009. While the terms and conditions were modified slightly, 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.

United Western Bank:

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.

Largely due to the impairment charges we recognized in the second and fourth quarters of 2007, which totaled $3,046,196, we became subject to an Event of Default provision under our Senior Subordinate Notes and Revolving Notes. This Event of Default provision was triggered when we recognized a net loss under GAAP of greater than $1,000,000 in any calendar quarter, which we did in both the second and fourth quarters of 2007. Each of these Events of Default provisions have been waived by GDBA Investments, LLLP and BOCO Investments, LLC.

(d) **MARKETS**

We focus on pre-leased build-to-suit development for single pad, small box retail projects with development partners. Specifically we focus on well known name brand chain tenants, either with corporate leases or qualified franchisees. While we currently have activity in twelve states, our current addressable market is all throughout the United States.

(e) **RAW MATERIALS**

The use of raw materials is not a material factor in our operations at the present time. We do not expect raw materials to be a material factor in the future.

(f) **CUSTOMERS AND COMPETITION**

Our operational activities are in the business of financing build-to-suit real estate projects for specific retailers who sign long-term leases for use of the property. We believe that this is a potentially large market with no single company or groups of companies holding a dominant share. However, project development is related to being able to convince retailers and developers to use our services, as opposed to the services of others. We believe that there could potentially be a number of established competitors, many of whom could be larger and better capitalized than we are who have greater numbers of personnel, more resources and more extensive technical expertise. There can be no guarantee that we will be able to compete successfully in the future.

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(g) **BACKLOG**

At December 31, 2007, we had no backlogs.

(h) **EMPLOYEES**

We have approximately thirteen fulltime employees, nine of which are in our corporate headquarters in Denver, CO and include executives, accounting, project management, operations and support staff. Four of our employees are sales professionals in the field. None of our employees are represented by a collective bargaining agreement, nor have we ever experienced a work stoppage. None of our non-executive employees currently have employment contracts or post-employment non-competition agreements. We believe that our employee relations are good.

(i) **PROPRIETARY INFORMATION**

We own no proprietary information.

(j) **GOVERNMENT REGULATION**

Since we are in the real estate industry, all of our projects have and will require local governmental approval with respect to zoning and construction code compliance. We will only require government approval on a project-by-project basis and only when we have projects pending. The extent of the approval varies with the project and the jurisdiction and cannot be quantified except as it relates to specific projects.

We believe the effect of complying with existing or probable governmental regulations is a managed cost of our business operations but could be significant. Each real estate project requires prior government approval. However, the cost cannot be quantified except as it relates to specific projects.

We believe that the cost of compliance with federal, state and local environmental laws will not be significant because we do not plan to choose projects which are subject to significant environmental costs or regulations. In any case, we plan to choose our projects to minimize the effects of governmental regulations. At the present time, we have no current projects and are not awaiting any governmental approvals.

(k) **RESEARCH AND DEVELOPMENT**

We have never spent any amount in research and development activities.

(l) **ENVIRONMENTAL COMPLIANCE**

We are not subject to any material costs for compliance with any environmental laws.

(m) **SUBSEQUENT EVENTS**

Effective February 27, 2008, Ms. Ann L. Schmitt resigned from all offices at our Company, including her position as a director. Our Board of Directors has appointed a replacement, Mr. Peter Shepard as our new President and Chief Executive Officer. He has been appointed on an interim basis until a suitable successor is qualified and elected. Prior to this position, Mr. Shepard was the Chief Financial Officer of GDBA Investments, LLLP, our largest shareholder. Mr. Shepard s compensation package is currently being determined by our Board of Directors.

On March 27, 2008, we executed the Third Amendment to our Credit Agreement with Vectra Bank extending the expiration of the 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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(n) **HOW TO OBTAIN OUR SEC FILINGS**

We file annual, quarterly, and special reports, proxy statements, and other information with the Securities Exchange Commission (SEC). Reports, proxy statements and other information filed with the SEC can be inspected and copied at the public reference facilities of the SEC at 100 F Street N.E., Washington, DC 20549. Such material may also be accessed electronically by means of the SEC s website at www.sec.gov.

Our investor relations department can be contacted at our principal executive office located at our principal office 700 17 th Street, Suite 1200, Denver, Colorado 80202. Our phone number at our headquarters is (303) 893-1003 and our website is www.acrossamerica.com.

ITEM 2. DESCRIPTION OF PROPERTY.

Our executive offices are currently located at 700 17th Street, Suite 1200, Denver, Colorado 80202. We lease this office space from an unaffiliated third party.

ITEM 3. LEGAL PROCEEDINGS.

No legal proceedings to which we are a party were pending during the reporting period. We know of no legal proceedings of a material nature pending or threatened or judgments entered against any of our directors or officers in their capacity as such.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Effective October 5, 2007, a majority of our Shareholders, in a written consent as permitted under Colorado law, re-elected the four members of our Board of Directors: Ann L. Schmitt, G. Brent Backman, Eric Balzer, and Joseph C. Zimlich. Each will hold office until the 2008 Annual Meeting and until his or her successor is elected and qualified.

Also effective October 5, 2007, a majority of our Shareholders, in the same written consent, approved and ratified the appointment of Cordovano and Honeck, LLP as our independent auditors for the fiscal year ending December 31, 2007.

As of October 5, 2007, a total of 16,036,625 shares of common stock and 517,000 Series A Convertible Preferred Stock, which is the equivalent of an additional 2,068,000 common shares, were issued and outstanding, for a total of 18,104,625 voting shares.

The Consent has been approved by a total of 11,632,500 voting shares, or 64.25% of the total issued and outstanding.

Subsequently, On February 27, 2008 Ann Schmitt resigned as President and CEO and from the Board of Directors.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) **PRINCIPAL MARKET OR MARKETS**

On June 29, 2005 our securities became listed and began trading on the NASD Bulletin Board under the symbol AARD.OB. Because we trade in the NASD Bulletin Board, a shareholder may find it difficult to dispose of or obtain accurate quotations as to price of our securities. In addition, The Securities Enforcement and Penny Stock Reform Act of 1990 requires additional disclosure related to the market for penny stock and for trades in any stock defined as a penny stock.

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The following table sets forth the high and low closing bid prices of our common stock on for the periods indicated in 2007 and 2006.

	Closing Bid Price	
2007	**High**	**Low**
First Quarter	$ 5.75	$ 1.76
Second Quarter	$ 3.00	$ 1.60
Third Quarter	$ 2.75	$ 1.55
Fourth Quarter	$ 1.75	$ 1.06

	Closing Bid Price	
2006	**High**	**Low**
First Quarter	$ 4.50	$ 2.00
Second Quarter	$ 3.15	$ 2.25
Third Quarter	$ 3.25	$ 2.00
Fourth Quarter	$ 6.15	$ 1.50

On March 27, 2008, the closing bid price of our common stock in the OTC Bulletin Board was $0.60 per share and our volume was 0 shares.

(b) **APPROXIMATE NUMBER OF HOLDERS OF COMMON STOCK**

As of the date hereof, a total of 16,036,625 of shares of our Common Stock were outstanding and the number of holders of record of our common stock at that date was 112.

(c) **DIVIDENDS**

Holders of common stock are entitled to receive such dividends as may be declared by our Board of Directors. No cash dividends on the common stock were paid by us during the periods reported herein nor do we anticipate paying dividends in the foreseeable future.

(d) **THE SECURITIES ENFORCEMENT AND PENNY STOCK REFORM ACT OF 1990**

The Securities Enforcement and Penny Stock Reform Act of 1990 requires additional disclosure and documentation related to the market for penny stock and for trades in any stock defined as a penny stock. Unless we can acquire substantial assets and trade at over $5.00 per share on the bid, it is more likely than not that our securities, for some period of time, would be defined under that Act as a penny stock. As a result, those who trade in our securities may be required to provide additional information related to their fitness to trade our shares. These requirements present a substantial burden on any person or brokerage firm who plans to trade our securities and would thereby make it unlikely that any liquid trading market would ever result in our securities while the provisions of this Act might be applicable to those securities.

Any broker-dealer engaged by the purchaser for the purpose of selling his or her shares in us will be subject to Rules 15g-1 through 15g-10 of the Securities and Exchange Act. Rather than creating a need to comply with those rules, some broker-dealers will refuse to attempt to sell penny stock.

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the Commission, which:

- contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- contains a description of the broker s or dealer s duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of the Securities Act of 1934, as amended;

- contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price;
- contains a toll-free telephone number for inquiries on disciplinary actions;
- defines significant terms in the disclosure document or in the conduct of trading penny stocks; and
- contains such other information and is in such form (including language, type, size and format) as the Securities and Exchange Commission shall require by rule or regulation;

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, to the customer:

- the bid and offer quotations for the penny stock;
- the compensation of the broker-dealer and its salesperson in the transaction;
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
- monthly account statements showing the market value of each penny stock held in the customer s account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser s written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements will have the effect of reducing the trading activity in the secondary market for our stock because it will be subject to these penny stock rules. Therefore, stockholders may have difficulty selling their securities.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion contains forward-looking statements regarding us, our business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that may affect such forward-looking statements include, without limitation our ability to successfully develop new products and services for new markets the impact of competition on our revenues, changes in law or regulatory requirements that adversely affect or preclude clients from using us for certain applications; delays our introduction of new products or services; and our failure to keep pace with our competitors.

When used in this discussion, words such as believes , anticipates , expects , intends and similar expressions intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

General

Our results of operations will probably be subject to variations. The results for a particular period may vary as a result of a number of factors. These include:

- the overall state of the real estate segment of the economy,
- the development status of and demand for our services and products,
- economic conditions in our markets,
- the timing of expenditures in anticipation of future revenues,
- the mix of services and products sold by us,
- the introduction of new services and products,
- product enhancements by us or our competitors, and
- pricing and other competitive conditions.

Overview and Recent Developments

We act as a co-developer, including as a financier, to develop built-to-suit real estate projects for specific retailers and other tenants who sign long-term leases for use of the property. Our primary source of revenue is from profits we receive upon the sale of our projects upon completion; however we also receive revenue from preferred dividends on our invested capital in projects, management fees we charge to our projects and rental income from our completed projects before their disposition. In addition we may share in certain revenues directly related to our projects with our development partners such as development fees and leasing and sales commissions.

Our focus for 2007 was to significantly grow our revenue base over the previous year utilizing our distributed sales force implemented in late 2006. We created five regions in the high growth areas of the United States to increase our penetration in these areas. Regional vice presidents were hired to manage each of the regions, which encompass five to six states. Management focused on hiring people with significant experience and established contacts in real estate, specifically in the triple net small-box retail space. Each regional vice president is responsible for marketing Across America s services to retailers and developers throughout their regions, as well as hire and manage sales representatives and utilize independent contractors to cover the smaller markets in their regions.

In addition we invested in our operations infrastructure during 2007 in order to be able to effectively manage our increased deal volume. In April, 2007 we hired Mr. Terry Thompson as our Senior VP of Operations to oversee our underwriting, project management and disposition areas. In addition we continued to add key support staff in these areas.

Another area of focus over the past year has been seeking additional capital sources to ensure our ability to fund additional projects as we grow. In April, 2007 we added an additional $6 million of subordinated debt between our two existing major investors, GDBA Investments, LLLP and BOCO Investments, LLC, bringing our total subordinated debt capacity to $20 million divided evenly between the two investors. In May, 2007 we added a $25 million senior debt line with United Western Bank to our existing $10 million senior line with Vectra Bank, which we just renewed in March, 2008, giving us $35 million in senior debt capacity. In October, 2007 we received a $3 million temporary subordinated debt line for a period of 90 days, in order to help facilitate the timing of the origination and completion of our fourth quarter projects. This line was only partially utilized and was repaid and retired in January 2008.

On January 10, 2007, our directors approved, subject to the effectiveness of a registration with the Securities and Exchange Commission, a spin-off to our shareholders of record as of March 1, 2007 (the Record Date), on a pro rata basis, with one share each of Across America Real Estate Exchange, Inc. and Across America Financial Services, Inc. to be issued for each ten shares issued and outstanding of our common stock or common stock upon conversion of our preferred stock owned by such shareholders as of the Record Date. The registration statements of Across America Real Estate Exchange, Inc. and Across America Financial Services, Inc. became effective on February 21, 2007 and March 19, 2007, respectively. The new shares of Across America Real Estate Exchange, Inc. and Across America Financial Services, Inc. were distributed to our shareholders on or about March 23, 2007.

On February 27, Ann Schmitt resigned as President and CEO and from the Board of Directors. Subsequently, the Board of Directors appointed Peter Shepard as Interim President and CEO.

Results of Operations

The following discussion involves our results of operations for the fiscal years ending December 31, 2007 and December 31, 2006. Our revenues for the twelve months ended December 31, 2007 were $17,875,858 compared to $8,459,994 for the twelve months ended December 31, 2006, which represents a year over year increase of 111.3%. Total project sales represented $17,171,469 for the period ended December 31, 2007 compared $7,833,000, including $5,050,000 of related party sales for the year ended December 31, 2006, representing a year over year increase of 119.2%.

We also generate revenues from rental income of properties that are completed and have not yet been sold, in addition to management fees we charge to the project at the time of the land acquisition. Rental income decreased to $232,408 for the year ended December 31, 2007 compared to $414,044 for the year ended December 31, 2006, due to shorter hold times on completed projects in 2007 compared to those in 2006. Management fees increased to $362,981 for the year ended December 31, 2007 compared to $212,950 for the year ended December 31, 2006. This increase was due to more projects entered into as a whole during 2007 compared to 2006.

Gross profits increased to $1,118,338 for the year ended December 31, 2007 compared to $616,112 for the year ended December 31, 2006; however, our gross margin decreased to 6.5% for the year ended December 31, 2007 compared to 7.9% for the year ended December 31, 2006. This margin compression is due to the fact that several of the projects that were sold in 2007 were impaired assets or were sold significantly below our target margins.

Selling, general and administrative costs were $3,393,436 for the year ended December 31, 2007 compared to $1,881,383 for the year ended December 31, 2006, representing an increase of approximately 80.4%. This increase was attributable to the substantial increase in staff over the past year in addition to increased sales and marketing activity to generate additional projects. Furthermore, included in selling, general and administrative costs for 2007 was $258,601 in bad debt expense for promissory notes associated with our impairment analysis. We believe that we can more efficiently allocate resources going forward and on a percentage basis, we believe that selling, general and administrative costs will decrease in the next year.

For the year ended December 31, 2007, we recognized impairment charges for eleven properties totaling $3,046,196. Of the total impairment charges, $1,257,531 related to projects that were disposed of in the year ended December 31, 2007 and $1,788,665 relates to properties we still own and are in the process of selling or are marketing for sale. While we believe we have adequately and conservatively impaired our portfolio and currently value our portfolio at its fair value, we will continue to impairment test our entire portfolio annually and may test all or part of it more frequently as market conditions or individual situations arise.

We had a net loss of $6,067,891 for the year ended December 31, 2007 compared to a net loss of $735,771 for the year ended December 31, 2006. While we had a substantial increase in revenues for the year ended 2007, we did not generate or close enough projects to support our increased operating costs. This combined with the magnitude of our impairment charges and bad debt write-offs for the year were the major factors that contributed to the significant increase of our net loss.

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For our audit dated 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.

It is our goal to move back towards profitability over the next fiscal year. To do so, we are focusing on actively managing our operating costs while still being able to grow our business. Furthermore, we are focusing heavily on our project underwriting process and standards in order to minimize the risks of project impairments moving forward.

Liquidity and Capital Resources

Cash and cash equivalents, increased from $1,097,440 on December 31, 2006 to $2,035,620 on December 31, 2007.

Cash used in operating activities increased to $12,143,979 for the year ended December 31, 2007 compared to $5,610,641 for the prior year. This was primarily the result of the increase deal volume for the last year. Given the large proportion of projects classified as available for sale , we anticipate that the cash used in operating activities will decrease in first half of next year and increasing as the year progresses.

Cash used in investing activities increased to $686,310 for 2007 compared to $157,976 for the prior year. The primary cause was a significant increase in the issuance of notes receivable for earnest money given our increased activity for the year. As we look to mitigate risks moving forward, we would anticipate these activities decreasing as we look to alternative structures and methods.

Cash provided by financing activities increased to $13,768,469 for 2007 compared to $6,685,561 for 2006. We expect our cash from financing activities to mirror our cash used in operating activities over the next year. Total availability on Senior Subordinated Revolving Notes on December 31, 2007 was $1,850,000 and we had availability of $21,358,269 on our Senior Credit Facilities as of December 31, 2006.

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.

Seasonality

Our revenues are not impacted by seasonal demands for our products or services.

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.

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ITEM 7. FINANCIAL STATEMENTS.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders:
Across America Real Estate Corp.

We have audited the accompanying consolidated balance sheet of Across America Real Estate Corp. as of December 31, 2007, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over consolidated financial reporting. Our audit included consideration of internal control over consolidated financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over consolidated financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Across America Real Estate Corp. as of December 31, 2007, and the results of their operations and their cash flows for the years ended December 31, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated 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 from two significant shareholders. These conditions raise doubt about the Company s ability to continue as a going concern. Further information and management s plans in regard to this uncertainty are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 18 to the consolidated financial statements, the Company has restated its 2007 consolidated financial statements.

/s/ Cordovano and Honeck LLP
Cordovano and Honeck LLP
Englewood, Colorado
March 25, 2008, except for Notes 8 and 18
which are dated April 3, 2009

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ITEM 1. FINANCIAL STATEMENTS.

Across America Real Estate Corp.
Consolidated Balance Sheet
as of December 31, 2007

	As Restated
Assets	
Cash and Equivalents	$ 2,035,620
Deposits held by an affiliate	940,880
Accounts Receivable, net	2,156,959
Property and equipment, net of accumulated depreciation	112,918
Real estate held for sale	14,398,602
Construction in progress	2,484,179
Land held for development	5,388,089
Deferred tax asset, net of allowance	
Current tax asset	
Deposits and prepaids	48,451
Total assets	$ 27,565,698
Liabilities and Shareholders Equity	
Liabilities	
Accounts payable	$ 269,726
Accrued liabilities	409,066
Dividends payable	78,187
Senior subordinated note payable, related parties	7,000,000
Senior subordinated revolving note, related parties	14,169,198
Note payable	5,716,397
Capital lease obligations	
Unearned Revenue	522,841
Total liabilities	28,165,415

Shareholders equity	39,579	35,132
Non-interest Income		
Mortgage banking activities	1,923	(231)
Mortgage servicing rights income (loss)	(10,924)	606
Other market valuation adjustments [1]	(1,145)	(6,138)
Realized gains, net	4,306	1,092
Other income	809	—
Total non-interest income (loss)	(5,031)	(4,671)
Operating expenses	(25,063)	(19,971)
Net income before provision for income taxes	9,485	10,490
Benefit from income taxes	5,316	1,843
Net Income	$ 14,801	$ 12,333
Basic earnings per common share	$ 0.17	$ 0.14

Diluted earnings per common share	$ 0.16	$ 0.14
Regular dividends declared per common share	$ 0.28	$ 0.28
Basic weighted average shares outstanding	83,360,312	82,410,562
Diluted weighted average shares outstanding	85,622,216	84,940,540

(1) For the three months ended March 31, 2015, there were no other-than-temporary impairments. For the three months ended March 31, 2014, other-than-temporary impairments were $1,671, of which $113 were recognized through the Income Statement and $1,558 were recognized in Accumulated Other Comprehensive Income.

The accompanying notes are an integral part of these consolidated financial statements.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)	Three Months Ended March 31, 2015	
(Unaudited)	2015	2014
Net Income	$14,801	$12,333
Other comprehensive income:		
Net unrealized gain on available-for-sale securities	5,053	19,323
Reclassification of unrealized (gain) loss on available-for-sale securities to net income	(1,690)	1,298
Net unrealized (loss) gain on interest rate agreements	(8,442)	(8,795)
Reclassification of unrealized loss on interest rate agreements to net income	31	60
Total other comprehensive (loss) income	(5,048)	11,886
Total Comprehensive Income	$9,753	$24,219

The accompanying notes are an integral part of these consolidated financial statements.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2015

(In Thousands, Except Share Data)	Common Stock		Additional Paid-In	Accumulated Other	Cumulative	Cumulative Distributions	Total
(Unaudited)	Shares	Amount	Capital	Comprehensive Income	Earnings	to Stockholders	
December 31, 2014	83,443,141	$834	$1,774,030	$140,688	$906,867	$(1,566,278)	$1,256,141
Cumulative effect adjustment - adoption of ASU 2014-13 [1]	—	—	—	—	9,728	—	9,728
January 1, 2015	83,443,141	834	1,774,030	140,688	916,595	(1,566,278)	1,265,869
Net income	—	—	—	—	14,801	—	14,801
Other comprehensive loss	—	—	—	(5,048)	—	—	(5,048)
Issuance of common stock:							—
Dividend reinvestment & stock purchase plans	185,045	2	3,239	—	—	—	3,241
Employee stock purchase and incentive plans	120,435	1	(184)	—	—	—	(183)
Non-cash equity award compensation	—	—	2,692	—	—	—	2,692
Common dividends declared	—	—	—	—	—	(24,162)	(24,162)
March 31, 2015	83,748,621	$837	$1,779,777	$135,640	$931,396	$(1,590,440)	$1,257,210

For the Three Months Ended March 31, 2014

(In Thousands, Except Share Data)	Common Stock		Additional Paid-In	Accumulated Other	Cumulative	Cumulative Distributions	Total
(Unaudited)	Shares	Amount	Capital	Comprehensive Income	Earnings	to Stockholders	
December 31, 2013	82,504,801	$825	$1,760,899	$148,766	$806,298	$(1,471,005)	$1,245,783
Net income	—	—	—	—	12,333	—	12,333
Other comprehensive income	—	—	—	11,886	—	—	11,886
Issuance of common stock:							
Dividend reinvestment & stock purchase	77,660	1	1,544	—	—	—	1,545

plans							
Employee stock purchase and incentive plans	37,193	—	(783)	—	—	—	(783)
Non-cash equity award compensation	—	—	3,872	—	—	—	3,872
Common dividends declared	—	—	—	—	—	(23,749)	(23,749)
March 31, 2014	82,619,654	$826	$1,765,532	$160,652	$818,631	$(1,494,754)	$1,250,887

(1) On January 1, 2015, we adopted ASU 2014-13. See Note 3 for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Three Months Ended March 31,	
(Unaudited)	2015	2014
Cash Flows From Operating Activities:		
Net income	$14,801	$12,333
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of premiums, discounts, and securities issuance costs, net	(9,176)	(9,158)
Depreciation and amortization of non-financial assets	143	106
Purchases of held-for-sale loans	(2,558,425)	(1,181,488)
Proceeds from sales of held-for-sale loans	2,455,452	785,380
Principal payments on held-for-sale loans	14,394	7,014
Net settlements of derivatives	(19,373)	(8,394)
Provision for loan losses	206	1,284
Non-cash equity award compensation expense	2,692	3,872
Market valuation adjustments	19,435	9,446
Realized gains, net	(4,306)	(1,092)
Net change in:		
Accrued interest receivable and other assets	(38,394)	(7,279)
Accrued interest payable, deferred tax liabilities, and accrued expenses and other liabilities	3,476	(13,682)
Net cash used in operating activities	(119,075)	(401,658)
Cash Flows From Investing Activities:		
Purchases of loans held-for-investment	(7,600)	(32,998)
Principal payments on loans held-for-investment	101,754	70,800
Purchases of real estate securities	(15,613)	(49,709)
Proceeds from sales of real estate securities	77,293	—
Principal payments on real estate securities	26,313	42,304
Purchase of mortgage servicing rights	(5,173)	(928)
Proceeds from sales of mortgage servicing rights	17,235	—
Net increase in restricted cash	(97)	(34)
Net cash provided by investing activities	194,112	29,435
Cash Flows From Financing Activities:		
Proceeds from borrowings on short-term debt	1,641,380	920,955
Repayments on short-term debt	(1,933,041)	(494,956)
Proceeds from issuance of asset-backed securities	420	—
Repayments on asset-backed securities issued	(80,918)	(88,523)
Deferred securities issuance costs	(32)	—
Proceeds from issuance of long-term debt	354,932	36,782
Repayments on long-term debt	—	(17)
Net settlements of derivatives	658	(721)
Net proceeds from issuance of common stock	134	122
Taxes paid on equity award distributions	(318)	(905)
Dividends paid	(24,162)	(23,749)
Net cash (used in) provided by financing activities	(40,947)	348,988
Net increase (decrease) in cash and cash equivalents	34,090	(23,235)
Cash and cash equivalents at beginning of period	269,730	173,201
Cash and cash equivalents at end of period	$303,820	$149,966
Supplemental Cash Flow Information:		

Cash paid during the period for:		
Interest	$15,032	$15,386
Taxes	38	1,399
Supplemental Noncash Information:		
Real estate securities retained from loan securitizations	$6,282	$—
Retention of mortgage servicing rights from loan securitizations and sales	15,675	2,294
Transfers from loans held-for-sale to loans held-for-investment	447,840	37,631
Transfers from residential loans to real estate owned	3,166	135

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

Note 1. Organization

Redwood Trust, Inc., together with its subsidiaries, focuses on investing in mortgage- and other real estate-related assets and engaging in residential and commercial mortgage banking activities. We seek to invest in real estate-related assets that have the potential to generate attractive cash flow returns over time and to generate income through our residential and commercial mortgage banking activities. We operate our business in three segments: residential mortgage banking, residential investments, and commercial mortgage banking and investments. Redwood was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. References herein to “Redwood,” the “company,” “we,” “us,” and “our” include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires.

Redwood Trust, Inc. has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), beginning with its taxable year ended December 31, 1994. To qualify as a REIT, we must distribute at least 90% of our annual REIT taxable income to shareholders (not including taxable income retained in our taxable subsidiaries) within the time frame set forth in the tax code and also meet certain other requirements related to assets, income, and stock ownership. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are not subject to subsidiary-level corporate income tax as “the REIT” or “our REIT.” We generally refer to subsidiaries of Redwood Trust, Inc. that are subject to subsidiary-level corporate income tax as “our operating subsidiaries” or “our taxable REIT subsidiaries” or “TRS.” We generally intend to distribute as dividends at least 90% of the taxable income we generate at our REIT.

We sponsor our Sequoia securitization program, which we use for the securitization of residential mortgage loans. References to Sequoia with respect to any time or period generally refer collectively to all the then consolidated Sequoia securitization entities for the periods presented. We have also engaged in securitization transactions in order to obtain financing for certain of our securities and commercial loans.

Note 2. Basis of Presentation

The consolidated financial statements presented herein are at March 31, 2015 and December 31, 2014, and for the three months ended March 31, 2015 and 2014. These interim unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") — as prescribed by the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) — have been condensed or omitted according to these SEC rules and regulations. Management believes that the disclosures included in these interim financial statements should be read in conjunction with consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, all normal and recurring adjustments to present fairly the financial condition of the company at March 31, 2015 and results of operations for all periods presented have been made. The results of operations for the three months ended March 31, 2015 should not be construed as indicative of the results to be expected for the full year.

Principles of Consolidation

In accordance with GAAP, we determine whether we must consolidate transferred financial assets and variable interest entities (“VIEs”) for financial reporting purposes. We currently consolidate the assets and liabilities of certain Sequoia securitization entities where we maintain an ongoing involvement, as well as an entity formed in connection with a resecuritization transaction we engaged in during 2011 (“Residential Resecuritization”), and an entity formed in connection with a commercial securitization we engaged in during 2012 (“Commercial Securitization”). Each securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood Trust, Inc. Our exposure to these entities is primarily through the financial interests we have retained, although we are exposed to certain financial risks associated with our role as a sponsor, manager, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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(Unaudited)
Note 2. Basis of Presentation - (continued)

For financial reporting purposes, the underlying loans and securities owned at the consolidated Sequoia entities, the Residential Resecuritization entity, and the Commercial Securitization entity are shown under residential and commercial loans and real estate securities on our consolidated balance sheets. The asset-backed securities ("ABS") issued to third parties by these entities are shown under ABS issued. In our consolidated statements of income, we record interest income on the loans and securities owned at these entities and interest expense on the ABS issued by these entities.

See Note 4 for further discussion on principles of consolidation.

Use of Estimates

The preparation of financial statements requires us to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amounts and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the consolidated financial statements and the reported amounts of certain revenues and expenses during the reported periods. It is likely that changes in these estimates (e.g., valuation changes due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. Our estimates are inherently subjective in nature and actual results could differ from our estimates and the differences could be material.

Note 3. Summary of Significant Accounting Policies

Significant Accounting Policies

Included in Note 3 to the Consolidated Financial Statements of our 2014 Annual Report on Form 10-K is a summary of our significant accounting policies. Provided below is a summary of additional accounting policies that are significant to the company's consolidated financial condition and results of operations for the three months ended March 31, 2015.

Recent Accounting Pronouncements

Adoption of ASU 2014-13

In November 2014, the FASB issued ASU 2014-13, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity" (ASU 2014-13). This update provides a measurement alternative to companies that consolidate collateralized financing entities ("CFEs"). Under the new guidance, companies can measure both the financial assets and financial liabilities of a CFE using the more observable of the fair value of the financial assets or fair value of the financial liabilities. This guidance is effective in the first quarter 2016 with early adoption permitted at the beginning of an annual period. The guidance can be applied either retrospectively to all relevant prior periods or by a modified retrospective approach with a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption.

On January 1, 2015, we elected to early adopt ASU 2014-13, as we determined this measurement alternative more accurately reflects our economic interests in, and financial results from, certain consolidated financing entities. We adopted the measurement alternative under this standard only for our consolidated Sequoia entities, which qualify under the standard as CFEs. We did not elect the measurement alternative for our Residential Resecuritization or our Commercial Resecuritization, and will continue to account for the assets and liabilities in these CFEs in accordance with existing accounting guidance.

Under the provisions of ASU 2014-13, we use the fair value of the liabilities issued by the Sequoia CFEs (which we determined to be more observable) to determine the fair value of the assets, whereby the net assets we consolidate in our financial statements related to these entities represents the estimated fair value of our retained interests in the Sequoia CFEs. Similarly, the periodic net market valuation adjustments we record on our income statement from the consolidated assets and liabilities of the CFEs represents the change in fair value of our retained interests in the Sequoia CFEs.

Using the modified retrospective approach, we recorded a cumulative-effect adjustment to equity of $10 million through retained earnings as of January 1, 2015. This cumulative-effect adjustment represents the net effect of adjusting the assets and liabilities of the Sequoia CFEs from amortized historical cost to fair value.

Subsequent to the adoption of ASU 2014-13, the consolidated assets and liabilities of the Sequoia CFEs are both carried at fair value, with the periodic net changes in fair value recorded on our income statement, in Other market valuation adjustments.

Note 3. Summary of Significant Accounting Policies - (continued)

The following table presents the assets and liabilities of the consolidated Sequoia entities at December 31, 2014 prior to the adoption of ASU 2014-13, the adjustments required to adopt the new standard, and the adjusted balances at January 1, 2015.

Impact of Adoption of ASU 2014-13 on Balance Sheet (1)

(In Millions)	December 31, 2014	ASU 2014-13 Adjustment	January 1, 2015
Loan Principal	$1,486	$(113)	$1,373
Loan unamortized premium	13	(13)	—
Allowance for loan losses	(21)	21	—
Residential loans held-for-investment	1,478	(105)	1,373
Deferred bond issuance costs	1	(1)	—
Other assets	5	—	5
Total assets	1,482	(105)	1,377
ABS issued principal	1,428	(125)	1,303
ABS issued unamortized discount	(10)	10	—
Total liabilities	1,418	(115)	1,303
Redwood's investment in consolidated Sequoia entities	$64	$10	$74

(1) Certain totals may not foot due to rounding.

Other Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” This new guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. This new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance is required to be applied on a retrospective basis. We plan to adopt this new guidance by the required date and will reclassify debt issuance costs that we currently present in other assets on our consolidated balance sheets and present them as debt discounts.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810) - Amendments to the Consolidation Analysis.” This new guidance provides a new scope exception for certain money market funds, makes targeted amendments to the current consolidation guidance, and ends the deferral granted to investment companies from applying the VIE guidance. This new guidance is effective for annual periods beginning after December 15, 2016. Early adoption is allowed, including in any interim period. We are currently evaluating the impact of adopting this new standard.

In June 2014, the FASB issued ASU 2014-11, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” This new guidance amends the accounting guidance for “repo-to-maturity” transactions and repurchase agreements executed as repurchase financings. In addition, the new standard requires a transferor to disclose more information about certain transactions, including those in which it retains substantially all of the exposure to the economic returns of the underlying transferred asset over the transaction’s term. This new guidance is effective in the first interim reporting period beginning after December 15, 2014. However, for repurchase and securities lending transactions reported as secured borrowing, the new standard’s enhanced disclosures are effective for annual periods beginning after December 15, 2014 and interim period beginning after March 15, 2015. We adopted the new guidance, as required, in the first quarter of 2015 and will adopt the disclosure requirements in the second quarter of 2015, as required. The adoption in the first quarter of 2015 did not have a material impact on our financial statements, as we did not have repo-to-maturity transactions outstanding.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The objective of the guidance is to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. The Amendment supersedes most current revenue recognition guidance, including industry-specific guidance. The Amendment also enhances disclosure requirements

Note 3. Summary of Significant Accounting Policies - (continued)

around revenue recognition and the related cash flows. The guidance is to be applied retrospectively to all prior periods presented or through a cumulative adjustment in the year of adoption, for interim and annual periods beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of adopting this new standard.

In January 2014, the FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." This update to the receivable guidance clarifies when a creditor is considered to have received physical possession of residential real estate resulting from an in substance repossession or foreclosure. In addition, the amendments require disclosure of both: (i) the amount of foreclosed residential real estate property held by the creditor; and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The update requires the guidance to be applied using either a modified retrospective transition method or a prospective transition method for interim and annual periods beginning after December 15, 2014, with early adoption permitted. We adopted this standard in the first quarter of 2015, as required, and it did not have a material impact on our financial statements.

Balance Sheet Netting

Certain of our derivatives and short-term debt are subject to master netting arrangements or similar agreements. Under GAAP, in certain circumstances we may elect to present certain financial assets, liabilities and related collateral subject to master netting arrangements in a net position on our consolidated balance sheets. However, we do not report any of these financial assets or liabilities on a net basis, and instead present them on a gross basis on our consolidated balance sheets.

The table below presents financial assets and liabilities that are subject to master netting arrangements or similar agreements categorized by financial instrument, together with corresponding financial instruments and corresponding collateral received or pledged at March 31, 2015 and December 31, 2014.

Offsetting of Financial Assets, Liabilities, and Collateral

March 31, 2015 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet [1] Financial Instruments	Cash Collateral (Received) Pledged	Net Amount
Assets [2]						
Interest rate agreements	$17,554	$—	$17,554	$(2,719)	$(10,830)	$4,005
TBAs	4,721	—	4,721	(4,667)	(54)	—
Total Assets	$22,275	$—	$22,275	$(7,386)	$(10,884)	$4,005
Liabilities [2]						
Interest rate agreements	$(57,581)	$—	$(57,581)	$2,719	$54,862	$—
TBAs	(8,842)	—	(8,842)	4,666	3,201	(975)
Futures	(332)	—	(332)	—	332	—
Loan warehouse debt	(895,895)	—	(895,895)	895,895	—	—
Security repurchase agreements	(606,269)	—	(606,269)	606,269	—	—
Total Liabilities	$(1,568,919)	$—	$(1,568,919)	$1,509,549	$58,395	$(975)

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

Note 3. Summary of Significant Accounting Policies - (continued)

December 31, 2014 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet (1) Financial Instruments	Cash Collateral (Received) Pledged	Net Amount
Assets (2)						
Interest rate agreements	$7,006	$—	$7,006	$(1,160)	$(4,360)	$1,486
Credit default index swaps	1,598	—	1,598	—	(375)	1,223
TBAs	6,653	—	6,653	(5,815)	—	838
Total Assets	$15,257	$—	$15,257	$(6,975)	$(4,735)	$3,547
Liabilities (2)						
Interest rate agreements	$(48,173)	$—	$(48,173)	$1,160	47,013	$—
TBAs	(9,506)	—	(9,506)	5,815	2,715	(976)
Futures	(372)	—	(372)	—	372	—
Loan warehouse debt	(1,185,316)	—	(1,185,316)	1,185,316	—	—
Security repurchase agreements	(608,509)	—	(608,509)	608,509	—	—
Total Liabilities	$(1,851,876)	$—	$(1,851,876)	$1,800,800	$50,100	$(976)

(1) Amounts presented in these columns are limited in total to the net amount of assets or liabilities presented in the prior column by instrument. In certain cases, there is excess cash collateral or financial assets we have pledged to a counterparty (which may, in certain circumstances, be a clearinghouse) that exceed the financial liabilities subject to a master netting arrangement or similar agreement. Additionally, in certain cases, counterparties may have pledged excess cash collateral to us that exceeds our corresponding financial assets. In each case, any of these excess amounts are excluded from the table although they are separately reported in our consolidated balance sheets as assets or liabilities, respectively.

(2) Interest rate agreements, TBAs, and futures are components of derivatives instruments on our consolidated balances sheets. Loan warehouse debt, which is secured by residential and commercial mortgage loans, and security repurchase agreements are components of short-term debt on our consolidated balance sheets.

For each category of financial instrument set forth in the table above, the assets and liabilities resulting from individual transactions within that category between us and a counterparty are subject to a master netting arrangement or similar agreement with that counterparty that provides for individual transactions to be treated as a single transaction. For certain categories of these instruments, some of our transactions are cleared and settled through one or more clearinghouses that are substituted as our counterparty and references herein to master netting arrangements or similar agreements include the arrangements and agreements governing the clearing and settlement of these transactions through the clearinghouses. In the event of the termination and close-out of any of those transactions, the corresponding master netting agreement or similar agreement provides for settlement on a net basis and for settlement to include the proceeds of the liquidation of any corresponding collateral, subject to certain limitations on termination, settlement, and liquidation of collateral that may apply in the event of the bankruptcy or insolvency of a party that should not inhibit the eventual practical realization of the principal benefits of those transactions or the corresponding master netting arrangement or similar agreement and any corresponding collateral.

Note 4. Principles of Consolidation

GAAP requires us to consider whether securitizations we sponsor and other transfers of financial assets should be treated as sales or financings, as well as whether any VIEs that we hold variable interests in – for example, certain legal entities often used in securitization and other structured finance transactions – should be included in our consolidated financial statements. The GAAP principles we apply require us to reassess our requirement to consolidate VIEs each quarter and therefore our determination may change based upon new facts and circumstances pertaining to each VIE. This could result in a material impact to our consolidated financial statements during subsequent reporting periods.

Note 4. Principles of Consolidation - (continued)

Analysis of Consolidated VIEs

As of March 31, 2015, the VIEs we are required to consolidate include certain Sequoia securitization entities, the Residential Resecuritization entity, and the Commercial Securitization entity. Each of these entities is independent of Redwood and of each other and the assets and liabilities of these entities are not owned by and are not legal obligations of ours. Our exposure to these entities is primarily through the financial interests we have retained, although we are exposed to certain financial risks associated with our role as a sponsor, manager, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities. The following table presents a summary of the assets and liabilities of these VIEs. Intercompany balances have been eliminated for purposes of this presentation.

Assets and Liabilities of Consolidated VIEs

March 31, 2015 (Dollars in Thousands)	Sequoia Entities	Residential Resecuritization	Commercial Securitization	Total
Residential loans, held-for-investment	$1,304,426	$—	$—	$1,304,426
Commercial loans, held-for-investment	—	—	191,575	191,575
Real estate securities	—	211,316	—	211,316
Restricted cash	147	—	135	282
Accrued interest receivable	1,720	449	1,491	3,660
Other assets	5,304	—	—	5,304
Total Assets	$1,311,597	$211,765	$193,201	$1,716,563
Accrued interest payable	$893	$10	$374	$1,277
Asset-backed securities issued	1,239,065	34,280	79,676	1,353,021
Total Liabilities	$1,239,958	$34,290	$80,050	$1,354,298
Number of VIEs	24	1	1	26

Analysis of Unconsolidated VIEs with Continuing Involvement

Since 2012, we have transferred residential loans to 23 Sequoia securitization entities sponsored by us and accounted for these transfers as sales for financial reporting purposes, in accordance with ASC 860. We also determined we were not the primary beneficiary of these VIEs as we lacked the power to direct the activities that will have the most significant economic impact on the entities. For the transferred loans where we held the servicing rights prior to the transfer and continue to hold the servicing rights, we recorded MSRs on our consolidated balance sheets, and classified those MSRs as Level 3 assets. We also retained senior and subordinate securities in these securitizations that we classified as Level 3 assets. Our continuing involvement in these securitizations is limited to customary servicing obligations associated with retaining residential MSRs (which we retain a third-party sub-servicer to perform) and the receipt of interest income associated with the securities we retained.

The following table presents information related to securitization transactions that occurred during the three months ended March 31, 2015 and 2014.

Securitization Activity Related to Unconsolidated VIEs Sponsored by Redwood

	Three Months Ended March 31,	
(In Thousands)	2015	2014
Principal balance of loans transferred	$338,796	$—
Trading securities retained, at fair value	3,423	—
AFS securities retained, at fair value	2,859	—
MSRs recognized	1,872	—

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Note 4. Principles of Consolidation - (continued)

The following table summarizes the cash flows during the three months ended March 31, 2015 and 2014 between us and the unconsolidated VIEs sponsored by us.

Cash Flows Related to Unconsolidated VIEs Sponsored by Redwood

	Three Months Ended March 31,	
(In Thousands)	2015	2014
Proceeds from new transfers	$341,716	$—
MSR fees received	3,770	3,423
Funding of compensating interest	(90)	(33)
Cash flows received on retained securities	12,645	12,303

The following table presents the key weighted-average assumptions used to measure MSRs and securities retained at the date of securitization.

Assumptions Related to Assets Retained from Unconsolidated VIEs Sponsored by Redwood

	Issued During The Three Months Ended March 31, 2015	
At Date of Securitization	MSRs	Subordinate Securities
Prepayment rate	5 - 19 %	8 %
Discount rates	11 %	6 %
Credit loss assumptions	N/A	0.25 %

The following table presents additional information at March 31, 2015 and December 31, 2014, related to unconsolidated securitizations accounted for as sales since 2012.

Unconsolidated VIEs Sponsored by Redwood

(In Thousands)	March 31, 2015	December 31, 2014
On-balance sheet assets, at fair value:		
Interest-only, senior and subordinate securities, classified as trading	$69,258	$93,802
Senior and subordinate securities, classified as AFS	391,296	460,990
Maximum loss exposure (1)	460,554	554,792
Assets transferred:		
Principal balance of loans outstanding	7,287,906	7,276,825
Principal balance of delinquent loans 30+ days delinquent	20,952	17,022

(1) Maximum loss exposure from our involvement with unconsolidated VIEs pertains to the carrying value of our securities retained from these VIEs and represents estimated losses that would be incurred under severe, hypothetical circumstances, such as if the value of our interests and any associated collateral declines to zero. This does not include, for example, any potential exposure to representation and warranty claims associated with our initial transfer of loans into a securitization.

Note 4. Principles of Consolidation - (continued)

The following table presents key economic assumptions for assets retained from unconsolidated VIEs and the sensitivity of their fair values to immediate adverse changes in those assumptions at March 31, 2015 and December 31, 2014.

Key Assumptions and Sensitivity Analysis for Assets Retained from Unconsolidated VIEs Sponsored by Redwood

March 31, 2015 (Dollars in Thousands)	MSRs		Senior Securities		Subordinate Securities	
Fair value at March 31, 2015	$50,156		$65,809		$394,745	
Expected life (in years) (1)	6		6		11	
Prepayment speed assumption (annual CPR) (1)	17	%	11	%	10	%
Decrease in fair value from:						
10% adverse change	$2,329		$3,697		$905	
25% adverse change	5,530		7,035		2,356	
Discount rate assumption (1)	11	%	10	%	5	%
Decrease in fair value from:						
100 basis point increase	$1,645		$2,540		$30,841	
200 basis point increase	3,216		4,899		57,886	
Credit loss assumption (1)	N/A		0.25	%	0.25	%
Decrease in fair value from:						
10% higher losses	N/A		$345		$2,397	
25% higher losses	N/A		456		5,704	

December 31, 2014 (Dollars in Thousands)	MSRs		Senior Securities		Subordinate Securities	
Fair value at December 31, 2014	$56,801		$93,802		$460,990	
Expected life (in years) (1)	7		6		10	
Prepayment speed assumption (annual CPR) (1)	14	%	9	%	10	%
Decrease in fair value from:						
10% adverse change	$2,419		$3,999		$684	
25% adverse change	5,639		9,475		2,355	
Discount rate assumption (1)	11	%	8	%	5	%
Decrease in fair value from:						
100 basis point increase	$2,104		$4,214		$34,149	
200 basis point increase	4,102		8,091		64,474	
Credit loss assumption (1)	N/A		0.25	%	0.25	%
Decrease in fair value from:						
10% higher losses	N/A		$126		$3,169	
25% higher losses	N/A		299		7,841	

(1) Expected life, prepayment speed assumption, discount rate assumption, and credit loss assumption presented in the tables above represent weighted averages.

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Note 4. Principles of Consolidation - (continued)

Analysis of Third-Party VIEs
Third-party VIEs are securitization entities in which we maintain an economic interest, but do not sponsor. Our economic interest may include several securities from the same third-party VIE, and in those cases, the analysis is performed in consideration of all of our interests. The following table presents a summary of our interests in third-party VIEs at March 31, 2015, grouped by security type.

Third-Party Sponsored VIE Summary

(Dollars in Thousands)	March 31, 2015
Residential Mortgage Backed Securities	
Senior	$480,200
Re-REMIC	169,240
Subordinate	175,250
Total Investments in Third-Party Sponsored VIEs	$824,690

We determined that we are not the primary beneficiary of any third-party VIEs, as we do not have the required power to direct the activities that most significantly impact the economic performance of these entities. Specifically, we do not service or manage these entities or otherwise solely hold decision making powers that are significant. As a result of this assessment, we do not consolidate any of the underlying assets and liabilities of these third-party VIEs – we only account for our specific interests in them.
Our assessments of whether we are required to consolidate a VIE may change in subsequent reporting periods based upon changing facts and circumstances pertaining to each VIE. Any related accounting changes could result in a material impact to our financial statements.

Note 5. Fair Value of Financial Instruments

For financial reporting purposes, we follow a fair value hierarchy established under GAAP that is used to determine the fair value of financial instruments. This hierarchy prioritizes relevant market inputs in order to determine an “exit price” at the measurement date, or the price at which an asset could be sold or a liability could be transferred in an orderly process that is not a forced liquidation or distressed sale. Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets. Level 2 inputs are observable inputs other than quoted prices for an asset or liability that are obtained through corroboration with observable market data. Level 3 inputs are unobservable inputs (e.g., our own data or assumptions) that are used when there is little, if any, relevant market activity for the asset or liability required to be measured at fair value.
In certain cases, inputs used to measure fair value fall into different levels of the fair value hierarchy. In such cases, the level at which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. Our assessment of the significance of a particular input requires judgment and considers factors specific to the asset or liability being measured.

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Note 5. Fair Value of Financial Instruments - (continued)

The following table presents the carrying values and estimated fair values of assets and liabilities that are required to be recorded or disclosed at fair value at March 31, 2015 and December 31, 2014.

	March 31, 2015		December 31, 2014	
(In Thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Residential loans, held-for-sale				
At fair value	$1,093,413	$1,093,413	$1,341,032	$1,341,032
At lower of cost or fair value	1,472	1,663	1,488	1,669
Residential loans, held-for-investment (1)				
At fair value	2,304,870	2,304,870	581,668	581,668
At amortized cost	—	—	1,474,386	1,381,918
Commercial loans, held-for-sale	54,407	54,407	166,234	166,234
Commercial loans, held-for-investment				
At fair value	72,619	72,619	71,262	71,262
At amortized cost	333,316	338,932	329,431	334,876
Trading securities	106,837	106,837	111,606	111,606
Available-for-sale securities	1,178,406	1,178,406	1,267,624	1,267,624
MSRs	120,324	120,324	139,293	139,293
Cash and cash equivalents	303,820	303,820	269,730	269,730
Restricted cash	725	725	628	628
Accrued interest receivable	17,970	17,970	18,222	18,222
Derivative assets	30,546	30,546	16,417	16,417
REO (2)	5,305	5,446	4,391	4,703
Margin receivable (2)	79,760	79,760	65,374	65,374
FHLBC stock (2)	28,434	28,434	10,688	10,688
Guarantee asset (2)	6,118	6,118	7,201	7,201
Pledged collateral (2)	10,265	10,265	9,927	9,927
Liabilities				
Short-term debt	$1,502,164	$1,502,164	$1,793,825	$1,793,825
Accrued interest payable	14,319	14,319	8,502	8,502
Guarantee obligation	6,917	6,917	7,201	7,201
Derivative liabilities	68,064	68,064	58,331	58,331
ABS issued (1)				
Fair value	1,239,065	1,239,065	—	—
Amortized cost	113,956	114,613	1,545,119	1,446,605
FHLBC borrowings	850,792	850,792	495,860	495,860
Commercial secured borrowings	68,077	68,077	66,707	66,707
Convertible notes	492,500	488,243	492,500	492,188
Other long-term debt	139,500	97,650	139,500	101,835

(1)

Upon adoption of ASU 2014-13 on January 1, 2015, loans held-for-investment and ABS issued by consolidated Sequoia entities began to be recorded at fair value. See Note 3 for further discussion.

(2) These assets are included in Other Assets on our consolidated balance sheets.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

Note 5. Fair Value of Financial Instruments - (continued)

During the three months ended March 31, 2015, we elected the fair value option for $23 million of residential subordinate securities, $2.40 billion of residential loans (principal balance), $93 million of commercial loans (principal balance), and $19 million of MSRs, respectively. We anticipate electing the fair value option for all future purchases of residential loans and commercial senior loans that we intend to sell to third parties or transfer to securitizations as well as for MSRs purchased or retained from sales of residential loans.
The following table presents the assets and liabilities that are reported at fair value on our consolidated balance sheets on a recurring basis at March 31, 2015, as well as the fair value hierarchy of the valuation inputs used to measure fair value.
Assets and Liabilities Measured at Fair Value on a Recurring Basis at March 31, 2015

March 31, 2015	Carrying	Fair Value Measurements Using		
(In Thousands)	Value	Level 1	Level 2	Level 3
Assets				
Residential loans	$3,398,283	$—	$200,869	$3,197,414
Commercial loans	127,026	—	—	127,026
Trading securities	106,837	—	—	106,837
Available-for-sale securities	1,178,406	—	—	1,178,406
Derivative assets	30,546	4,721	17,554	8,271
MSRs	120,324	—	—	120,324
Pledged collateral	10,265	10,265	—	—
FHLBC stock	28,434	28,434	—	—
Guarantee asset	6,118	—	—	6,118
Liabilities				
Derivative liabilities	68,064	9,173	58,045	846
Commercial secured borrowings	68,077	—	—	68,077
ABS issued	1,239,065	—	—	1,239,065

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Note 5. Fair Value of Financial Instruments - (continued)

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2015.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Assets							Liabilities	
(In Thousands)	Residential Loans	Commercial Loans	Trading Securities	AFS Securities	MSRs	Guarantee Asset	Derivatives (1)	Commercial Secured Borrowings	ABS Issued
Beginning balance - December 31, 2014	$1,677,984	$237,496	$111,606	$1,267,624	$139,293	$7,201	$1,119	$66,707	$—
Transfer to FVO (2)	1,370,699	—	—	—	—	—	—	—	1,302,216
Principal paydowns	(111,716)	(240)	(203)	(26,110)	—	—	—	(152)	(66,517)
Amortization income	—	—	—	9,838	—	—	—	—	—
Gains (losses) in net income, net	7,570	7,366	(14,114)	4,306	(19,517)	(1,083)	20,087	1,509	2,946
Unrealized gains in OCI, net	—	—	—	3,795	—	—	—	—	—
Acquisitions	1,112,042	92,713	23,084	9,831	18,754	—	—	—	—
Sales	(857,249)	(210,309)	(13,536)	(90,878)	(18,206)	—	—	—	—
Other settlements, net	(1,916)	—	—	—	—	—	(13,781)	13	421
Ending balance - March 31, 2015	$3,197,414	$127,026	$106,837	$1,178,406	$120,324	$6,118	$7,425	$68,077	$1,239,066

(1) For the purpose of this presentation, derivative assets and liabilities, which consist of loan purchase commitments, are presented on a net basis.

(2) Upon adoption of ASU 2014-13 on January 1, 2015, loans held-for-investment in, and ABS issued by, consolidated financial entities are now recorded at fair value. See Note 3 for further discussion.

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 5. Fair Value of Financial Instruments - (continued)

The following table presents the portion of gains or losses included in our consolidated statements of income that were attributable to Level 3 assets and liabilities recorded at fair value on a recurring basis and held at March 31, 2015 and 2014. Gains or losses incurred on assets or liabilities sold, matured, called, or fully written down during the three months ended March 31, 2015 and 2014 are not included in this presentation.

Portion of Net Gains (Losses) Attributable to Level 3 Assets and Liabilities Still Held at March 31, 2015 and 2014 Included in Net Income

	Included in Net Income Three Months Ended March 31,	
(In Thousands)	2015	2014
Assets		
Residential loans at Redwood	$5,464	$3,483
Residential loans at consolidated Sequoia entities	1,179	—
Commercial loans	2,959	2,530
Trading securities	(13,790)	(4,431)
Available-for-sale securities	—	(113)
MSRs	(11,769)	(2,291)
Loan purchase commitments	7,422	—
Other assets - Guarantee asset	(1,083)	—
Liabilities		
Loan purchase commitments	—	(235)
Commercial secured borrowing	(1,509)	—
ABS issued	(2,946)	—

The following table presents information on assets recorded at fair value on a non-recurring basis at March 31, 2015. This table does not include the carrying value and gains or losses associated with the asset types below that were not recorded at fair value on our balance sheet at March 31, 2015.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis at March 31, 2015

March 31, 2015	Carrying	Fair Value Measurements Using			Gain (Loss) for Three Months Ended
(In Thousands)	Value	Level 1	Level 2	Level 3	March 31, 2015
Assets					
Residential loans, at lower of cost or fair value	$1,103	$—	$—	$1,103	$—
REO	3,410	—	—	3,410	(74)

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Note 5. Fair Value of Financial Instruments - (continued)

The following table presents the components of market valuation adjustments, net, recorded in our consolidated statements of income for the three months ended March 31, 2015 and 2014.

Market Valuation Adjustments, Net

	Three Months Ended March 31,	
(In Thousands)	2015	2014
Mortgage banking activities		
Residential loans, at fair value	$2,056	$7,128
Commercial loans, at fair value	5,857	3,626
Sequoia IO securities	(14,359)	(4,277)
Risk management derivatives, net	(10,583)	(7,082)
Loan purchase and forward sale commitments	18,256	8