REDWOOD TRUST INC
Form PRE 14A
March 20, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant: x
Filed by a Party other than the Registrant: o

Check the appropriate box:

x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

REDWOOD TRUST, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TABLE OF CONTENTS

REDWOOD TRUST, INC.
One Belvedere Place, Suite 300
Mill Valley, California 94941
(415) 389-7373

NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Redwood Trust, Inc.:

You are cordially invited to attend the Annual Meeting of Stockholders of Redwood Trust, Inc., a Maryland corporation, to be held on May 19, 2009 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, for the following purposes:

1. To elect George E. Bull, III, Thomas C. Brown, Diane L. Merdian, and Georganne C. Proctor as Class III directors to serve until the Annual Meeting of Stockholders in 2012 and until their successors are duly elected and qualified;
2. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2009;
3. To consider and vote upon an amendment to our 2002 Employee Stock Purchase Plan;
4. To consider and vote upon an amendment to our Charter; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

A Proxy Statement describing the matters to be considered at the Annual Meeting is attached to this notice. Our Board of Directors has fixed the close of business on March 31, 2009 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement of the Annual Meeting.

Your proxy to vote your shares at the Annual Meeting is solicited by our Board of Directors, which recommends that your votes be cast FOR the specified nominees for election as directors, FOR ratification of the appointment of our independent registered public accounting firm for 2009, FOR approval of the amendment to the 2002 Employee Stock Purchase Plan, and FOR approval of the amendment to our Charter.

We would like your shares to be represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we respectfully request that you date, execute, and promptly mail the enclosed proxy card in the accompanying postage-paid envelope or authorize a proxy to vote your shares by telephone or via the Internet as instructed on the proxy card.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 19, 2009:

our Proxy Statement can be directly accessed through our website at:
http://www.redwoodtrust.com/proxymaterials
our Annual Report on Form 10-K for the year ended December 31, 2008 is available within the Investor Information section of our website at: ***http://www.redwoodtrust.com***

By Order of the Board of Directors,

/s/ Andrew P. Stone
Secretary

March 19, 2009

YOUR VOTE IS IMPORTANT. PLEASE PROMPTLY MARK, DATE, SIGN, AND RETURN YOUR PROXY CARD IN THE ENCLOSED ENVELOPE OR AUTHORIZE A PROXY TO VOTE YOUR SHARES BY TELEPHONE OR THROUGH THE INTERNET AS INSTRUCTED ON THE PROXY CARD.

TABLE OF CONTENTS

REDWOOD TRUST, INC.

TABLE OF CONTENTS

TABLE OF CONTENTS

REDWOOD TRUST, INC.
One Belvedere Place, Suite 300
Mill Valley, California 94941
(415) 389-7373

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 19, 2009

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Redwood Trust, Inc., a Maryland corporation (the Company, Redwood, we, or us), for exercise at the Annual Meeting of Stockholders (the Annual Meeting) to be held on Tuesday, May 19, 2009 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, and at any adjournment or postponement thereof. This Proxy Statement, the accompanying proxy card, and the Notice of Annual Meeting are being sent to stockholders beginning on or about April 10, 2009.

Redwood Trust, Inc., together with its subsidiaries, is a financial institution focused on investing in, financing, and managing residential and commercial real estate loans and securities. We seek to invest in assets that have the potential to provide cash flow returns over a long period of time and support our goal of distributing attractive levels of dividends to our stockholders. For tax purposes, we are structured as a real estate investment trust, or REIT. We are able to pass through substantially all of our earnings generated at our REIT to our stockholders without paying income tax at the corporate level. We pay income tax on the REIT taxable income we retain and on the income we earn at our taxable subsidiaries.

Our primary real estate investments include investments in real estate loans and securities, investments in the securitization entities that we sponsor, and investments in a private fund that we sponsor.

The address and telephone number of our principal executive office are as set forth above and our website is *www.redwoodtrust.com.*

INFORMATION ABOUT THE ANNUAL MEETING

Who May Attend the Annual Meeting

Only stockholders who own our common stock as of the close of business on March 31, 2009, the record date for the Annual Meeting, will be entitled to attend the Annual Meeting. In the discretion of management, we may permit certain other individuals to attend the Annual Meeting, including members of the media and our employees.

Who May Vote

Each share of our common stock outstanding on the record date for the Annual Meeting is entitled to one vote. The record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting is the close of business on March 31, 2009. As of the record date, there were [60,222,048] shares of common stock issued and outstanding. You can vote in person at the Annual Meeting or by proxy. To vote by proxy, please date, execute, and mail the enclosed proxy card, or authorize a proxy to vote your shares by telephone or through the Internet as instructed on the proxy card.

If your shares are held in the name of a bank, broker, or other holder of record, you will receive instructions from the holder of record that you must follow in order for your shares to be voted. If your shares are not registered in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your broker or agent to obtain a broker s proxy card and bring it to the Annual Meeting in order to vote.

1

TABLE OF CONTENTS

Voting by Proxy

If you vote by proxy, the individuals named on the proxy, or their substitutes, will vote your shares in the manner you indicate. If you date, sign, and return the proxy card without indicating your instructions, your shares will be voted as follows:

For the election of each of the three Class III nominees to serve until the Annual Meeting of Stockholders in 2012 and until their successors are duly elected and qualified;
For the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2009;
For the approval of the amendment to our 2002 Employee Stock Purchase Plan;
For the approval of the amendment to our Charter;
In the discretion of the proxy holder on any other matter that properly comes before the Annual Meeting.
You may revoke or change your proxy at any time before it is exercised by delivering to us a signed proxy with a date later than your previously delivered proxy, by voting in person at the Annual Meeting, or by sending a written revocation of your proxy addressed to Redwood s Secretary at our principal executive office.

Quorum Requirement

The presence, in person or by proxy, of stockholders entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting constitutes a quorum for the transaction of business. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner has not received instructions from the beneficial owner and does not have or chooses not to exercise discretionary authority to vote the shares.

Other Matters

Our Board of Directors knows of no other matters that may be presented for stockholder action at the Annual Meeting. If other matters do properly come before the meeting, however, it is intended that the persons named in the proxies will vote upon them in their discretion.

Information About the Proxy Statement and the Solicitation of Proxies

The enclosed proxy is solicited by our Board of Directors and we will bear the costs of this solicitation. Proxy solicitations will be made by mail, and also may be made by our directors, officers, and employees in person or by telephone, facsimile transmission, e-mail, or other means of communication on our behalf by our directors and officers. Banks, brokerage houses, nominees, and other fiduciaries will be requested to forward the proxy soliciting material to the beneficial owners of shares of our common stock entitled to be voted at the Annual Meeting and to obtain authorization for the execution of proxies. We will, upon request, reimburse those parties for their reasonable expenses in forwarding proxy materials to their beneficial owners.

Annual Report

Our 2008 Annual Report, consisting of our Annual Report on Form 10-K for the year ended December 31, 2008, is being mailed to stockholders together with this Proxy Statement and contains financial and other information about Redwood, including audited financial statements for our fiscal year ended December 31, 2008. Certain sections of our 2008 Annual Report are incorporated into this Proxy Statement by reference, as described in more detail under Information Incorporated by Reference below. A copy of our 2008 Annual Report is available on our website.

Householding

We have adopted a procedure approved by the Securities and Exchange Commission (SEC) called householding. Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our Notice of Annual Meeting, Proxy Statement, and Annual Report, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure reduces our printing costs and postage fees.

Stockholders who participate in householding will continue to receive separate proxy cards. Also, householding will not in any way affect dividend check mailings.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the Notice of Annual Meeting, Proxy Statement, and Annual Report, or if you hold stock in more than one account, and in either case you wish to receive only a single copy of each of these documents for your household, please contact our transfer agent, Computershare Trust Company, N.A. (in writing at: Computershare Investor Services, 250 Royall Street, Canton, MA 02021; or by telephone at: (888) 472-1955).

If you participate in householding and wish to receive a separate copy of this Notice of Annual Meeting, Proxy Statement, and 2008 Annual Report, or if you do not wish to participate in householding and prefer to receive separate copies of these documents in the future, please contact Computershare as indicated above.

Beneficial owners can request information about householding from their banks, brokers, or other holders of record.

CORPORATE GOVERNANCE

Corporate Governance Standards

Our Board of Directors has adopted Corporate Governance Standards (Governance Standards). Our Governance Standards are available on our website as well as in print at the written request of any stockholder addressed to Redwood s Secretary at our principal executive office. The Governance Standards contain general principles regarding the composition and functions of our Board of Directors and its committees.

Director Independence

As required under Section 303A of the New York Stock Exchange (NYSE) Listed Company Manual and our Governance Standards, our Board of Directors has affirmatively determined that none of the following directors has a material relationship (either directly or as a partner, shareholder, or officer of an organization that has a relationship) with us and that each of them qualifies as independent under Section 303A: Richard D. Baum, Thomas C. Brown, Mariann Byerwalter, Greg H. Kubicek, Diane L. Merdian, Georganne C. Proctor, Charles J. Toeniskoetter, and David L. Tyler.

Process for Nominating Potential Director Candidates

Director Qualifications. Our Governance Standards contain Board membership criteria that apply to nominees for our Board of Directors. The Governance Standards require that each member of our Board of Directors must exhibit high standards of integrity, commitment, and independence of thought and judgment, and must be committed to promoting the best interests of Redwood. In addition, each director must devote the time and effort necessary to be a responsible and productive member of our Board of Directors. This includes developing knowledge about Redwood s business operations and doing the work necessary to participate actively and effectively in Board and committee meetings. The members of our Board of Directors should collectively possess a broad range of talent, skill, expertise, and experience useful to effective oversight of our business and affairs and sufficient to provide sound and prudent guidance with respect to our operations and interests.

Identifying and Evaluating Nominees for Directors. Our Board of Directors nominates director candidates for election by stockholders at each annual meeting and elects new directors to fill vacancies on our Board of Directors between annual meetings of the stockholders. Our Board of Directors has delegated the selection and initial evaluation of potential director nominees to the Governance and Nominating Committee with input from the Chief Executive Officer and the President. The Governance and Nominating Committee makes the final recommendation of candidates to our Board of Directors for nomination. Our Board of Directors, taking into consideration the assessment of the Governance and Nominating Committee, also determines whether a nominee would be an independent director.

Stockholders Nominees. Our Bylaws permit stockholders to nominate a candidate for election as a director at an annual meeting of the stockholders subject to compliance with certain notice and informational

TABLE OF CONTENTS

requirements, as more fully described below in this Proxy Statement under Stockholder Proposals for the 2010 Annual Meeting. A copy of the full text of our Bylaws may be obtained by any stockholder upon written request addressed to Redwood s Secretary at our principal executive office. Among other matters required under our Bylaws, any stockholder nominations should include the nominee s name and qualifications for Board membership and should be addressed to Redwood s Secretary at our principal executive office.

The policy of the Governance and Nominating Committee is to consider properly submitted stockholder nominations for candidates for election to our Board of Directors. The Governance and Nominating Committee evaluates stockholder nominations in connection with its responsibilities set forth in its written charter and applies the qualification criteria set forth in the Governance Standards under Director Qualifications.

Code of Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics (Code of Ethics) that applies to all of our directors, officers, and employees. Our Code of Ethics is available on our website as well as in print at the written request of any stockholder addressed to Redwood s Secretary at our principal executive office.

We intend to post on our website, and disclose in a Current Report on Form 8-K to the extent required by applicable regulations, any change to the provisions of our Code of Ethics, as well as any waiver of a provision of the Code of Ethics.

Presiding Director

Our Governance Standards provide that the Chair of the Governance and Nominating Committee of the Board of Directors will serve as the Presiding Director for our independent directors, chairing executive sessions of our non-management directors, and performing other duties set forth in our Governance Standards. Richard D. Baum currently serves as the Presiding Director.

Executive Sessions

Our Governance Standards require that our non-management directors meet in executive session at each regularly scheduled meeting of our Board of Directors and at such other times as determined by our Presiding Director. In addition, if any non-management director is not also an independent director, then our Governance Standards require that our independent directors meet at least annually without any non-management directors who are not independent.

Communications with the Board of Directors

Stockholders and other interested parties may communicate with our Board of Directors by e-mail addressed to *boardofdirectors@redwoodtrust.com*. The Presiding Director has access to this e-mail address and will provide access to the other directors as appropriate. Communications that are intended specifically for non-management directors should be addressed to the Presiding Director.

Director Attendance at Annual Meetings of Stockholders

Pursuant to our Governance Standards, our directors are expected to attend annual meetings of stockholders. Eight of our then nine directors attended last year s Annual Meeting of Stockholders in person. We currently expect all of our ten directors to attend this year s Annual Meeting of Stockholders.

TABLE OF CONTENTS

STOCK OWNERSHIP REQUIREMENTS

Required Stock Ownership by Directors

Pursuant to our Governance Standards, non-employee directors are required to purchase from their own funds at least $50,000 (as measured on a purchase cost basis, including deferred stock units acquired in the deferred compensation plan through the voluntary deferral of what otherwise would have been current cash compensation) of our common stock within three years from the date of commencement of their Board membership. In addition, non-employee directors are required to own at least $250,000 of our common stock (as measured on a purchase cost basis, including deferred stock units acquired through both voluntary and involuntary deferred compensation) by the later of December 31, 2011 or five years from the date of commencement of their Board membership. Stock and deferred stock units acquired with respect to the $50,000 stock ownership requirement counts toward the attainment of the $250,000 stock ownership requirement.

As of the date of this proxy statement, all of our non-employee directors were in compliance with these guidelines.

Required Stock Ownership by Executive Officers

The Compensation Committee of our Board of Directors has also set the following executive stock ownership guidelines with respect to the Company s Named Executive Officers, using original purchase/acquisition price as the basis for tracking compliance.

Each Named Executive Officer is required to own stock with a value at least equal to (i) five times current salary for the Chief Executive Officer, (ii) three times current salary for the two Co-Chief Operating Officers, and (iii) two times current salary for the next two most senior Named Executive Officers;
Three years are allowed to initially attain the required level of ownership, and three years are allowed to acquire additional incremental shares if promoted to a position with a higher guideline (if not in compliance at the indicated times, then the executive officer is required to retain net after-tax shares delivered as compensation or from the Executive Deferred Compensation Plan until compliance is achieved); and
All shares owned outright are counted, including those held in trust for the executive officer and his or her immediate family, as well as vested deferred stock units and any other vested shares held pursuant to other employee plans.
As of the date of this proxy statement, all of our Named Executive Officers were in compliance with these guidelines.

TABLE OF CONTENTS

ITEM 1 ELECTION OF DIRECTORS

Our Charter and Bylaws provide for a classified Board of Directors consisting of Classes I, II, and III. Class III directors are scheduled to be elected at the 2009 Annual Meeting to serve for a three-year term and until their successors are duly elected and qualify. The nominees for the four Class III director positions are set forth below. In the event we are advised prior to the Annual Meeting that any nominee will be unable to serve or for good cause will not serve as a director if elected at the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them for the nominees listed below and against any other nominees. As of the date of this Proxy Statement, we are not aware of any nominee who is unable or unwilling to serve as a director for the full three-year term. The nominees listed below currently are serving as directors of Redwood.

Vote Required

If a quorum is present, a plurality of the votes cast at the Annual Meeting is required for the election of directors. Cumulative voting in the election of directors is not permitted. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the results of the vote in the election of directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE *FOR THE NOMINEES IDENTIFIED BELOW.*

Class III Nominees to Board of Directors

Name	Positions with Redwood
George E. Bull, III	Chairman of the Board and Chief Executive Officer
Thomas C. Brown	Director
Diane L. Merdian	Director
Georganne C. Proctor	Director

Certain biographical information regarding each nominee for election at the Annual Meeting is set forth below along with biographical information for other directors.

George E. Bull, III, age 60, is a founder of Redwood and has served as Chairman of the Board and Chief Executive Officer of Redwood since 1994. From 1983 to 1997, Mr. Bull was the President of George E. Bull, III Capital Management, Inc. (GB Capital). GB Capital assisted banks, insurance companies, and savings and loans in managing portfolios of securitized and unsecuritized mortgage loans, in arranging collateralized borrowings, in hedging balance sheet risks, and with other types of capital markets transactions. Mr. Bull holds a B.A. in Economics from the University of California at Davis.

Thomas C. Brown, age 60, has been a director of Redwood since 1998. Mr. Brown is currently Chief Operating Officer of McGuire Real Estate and principal shareholder of Urban Bay Properties, Inc. Mr. Brown has previously held CEO or senior officer positions with PMI Mortgage Insurance, Centerbank, and Merrill Lynch and Co., Inc. Mr. Brown s experience encompasses over 25 years in mortgage finance, real estate, banking, and investment banking. Mr. Brown holds a B.S. from Boston University and an M.B.A. from the University of Buffalo.

Diane L. Merdian, age 49, has been a director of Redwood since August 2008. Ms. Merdian is currently retired from a 24-year career as an equity research analyst focused on the banking sector. From 2003 to April 2008, Ms. Merdian was a bank strategist and senior bank research analyst of Keefe, Bruyette & Woods (KBW), an investment banking firm focused on financial services companies. In addition, she was a managing director and headed KBW s large-cap bank group. Previously, Ms. Merdian was managing director and head of bank equity research for Morgan Stanley from 2001 through 2002 and managing director and head of bank equity research at Montgomery Securities from 1995 to 2001. Ms. Merdian held similar equity analyst positions at Wellington Management, Smith Barney and Salomon Brothers where she started in 1984. Ms. Merdian was an economic research associate for the Federal Reserve Bank of Kansas City from 1981 to 1983. Ms. Merdian holds a B.A. in Economics, with highest distinction, from the University of Kansas. Ms. Merdian also attended the Graduate School of Business at the University of Chicago and New York University.

TABLE OF CONTENTS

Georganne C. Proctor, age 52, has been a director of Redwood since 2006. Ms. Proctor is currently Executive Vice President and Chief Financial Officer of TIAA-CREF, and has been in this position since 2006. From 2003 to 2005, Ms. Proctor was Executive Vice President of Golden West Financial Corporation, a thrift institution. From 1994 to 1997, Ms. Proctor was Vice President of Bechtel Group, a global engineering firm, and also served as its Senior Vice President and Chief Financial Officer from 1997 to 2002 and as a director from 1999 to 2002. From 1991 to 1994, Ms. Proctor served as finance director of certain divisions of The Walt Disney Company, a diversified worldwide entertainment company. Ms. Proctor also serves on the Board of Directors of Kaiser Aluminum Corporation. Ms. Proctor holds a B.S. in Business Management from the University of South Dakota and an M.B.A. from California State University at Hayward.

Current Directors Terms Expiring After 2009

Richard D. Baum, age 62, has been a director of Redwood since 2001. Mr. Baum is the Executive Director of the California Commission for Economic Development. Between 2003 and 2007 he was the Chief Deputy Insurance Commissioner for the State of California. Previously, Mr. Baum served from 1996 to 2003 as the President of Care West Insurance Company, a worker's compensation insurance company, and prior to that as Senior Vice President of Amfac, Inc., a diversified operating company engaged in various businesses, including real estate development and property management. Mr. Baum holds a B.A. from Stanford University, an M.A. from the State University of New York, and a J.D. from George Washington University, National Law Center, Washington, D.C. Mr. Baum is a Class I director whose term expires in 2010.

Mariann Byerwalter, age 48, has been a director of Redwood since 1998. Ms. Byerwalter is currently Chairman of JDN Corporate Advisory LLC (a privately held advisory services firm). Previously, Ms. Byerwalter served as the Chief Financial Officer and Vice President for Business Affairs of Stanford University from 1996 to 2001. She was a partner and co-founder of America First Financial Corporation, and was also Chief Operating Officer, Chief Financial Officer, and a director of America First Eureka Holdings, a publicly traded institution and the holding company for EurekaBank. She serves as Trustee of certain investment companies affiliated with Charles Schwab Corporation and a director of The PMI Group, Inc., Pacific Life Corporation, SRI International, Burlington Capital, the Lucile Packard Children s Hospital, and the Stanford Hospital and Clinics, where she serves as Chair of the Board. She also currently serves on the Board of Trustees of Stanford University. Ms. Byerwalter holds a B.A. from Stanford University and an M.B.A. from Harvard Business School. Ms. Byerwalter is a Class I director whose term expires in 2010.

Douglas B. Hansen, age 51, is a founder of Redwood and served as President from 1994 to 2008. Mr. Hansen retired from his position as President of Redwood at the end of December 2008 and continues to serve as a director of Redwood. From 1990 to 1997, Mr. Hansen was a Principal with George E. Bull, III Capital Management, Inc. (GB Capital). GB Capital assisted banks, insurance companies, and savings and loans in managing portfolios of securitized and unsecuritized mortgage loans, in arranging collateralized borrowings, in hedging balance sheet risks, and with other types of capital markets transactions. Mr. Hansen holds a B.A. in Economics from Harvard College and an M.B.A. from Harvard Business School. Mr. Hansen is a Class II director whose term expires in 2011.

Greg H. Kubicek, age 52, has been a director of Redwood since 2002. Mr. Kubicek is President of The Holt Group, Inc., a real estate company that develops, owns, and manages commercial real estate properties and is a residential homebuilder. He has also served as Chairman of the Board of Cascade Corporation, an international manufacturing corporation. Mr. Kubicek holds a B.A. in Economics from Harvard College. Mr. Kubicek is a Class II director whose term expires in 2011.

Charles J. Toeniskoetter, age 64, has been a director of Redwood since 1994. Mr. Toeniskoetter is Chairman of Toeniskoetter & Breeding, Inc., a company that has developed, owns, and manages over $300 million of commercial and industrial real estate properties. Mr. Toeniskoetter serves on the Board of Directors of SJW Corp. and Heritage Commerce Corp., as well as a number of other community organizations. Mr. Toeniskoetter holds a B.S. in Mechanical Engineering from the University of Notre Dame and an M.B.A. from the Stanford University Graduate School of Business. Mr. Toeniskoetter is a Class II director whose term expires in 2011.

7

TABLE OF CONTENTS

David L. Tyler, age 71, has been a director of Redwood since 2001. Mr. Tyler retired in 2001 as Executive Vice President, director, and Chief Financial Officer of Interland Corporation, a private owner and developer of commercial centers and apartment communities. Interland owned and operated in excess of 5,000 multifamily units and over two million square feet of office space. Prior to his employment at Interland beginning in 1972, Mr. Tyler served as Controller at Kaiser Resources from 1968 to 1971 and with the accounting firm Touche Ross from 1963 to 1968. Mr. Tyler holds a B.A from the University of California, Riverside and an M.B.A from the Graduate School of Business, University of California, Berkeley. Mr. Tyler is a Class I director whose term expires in 2010.

8

TABLE OF CONTENTS

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors consists of ten directors. Our Board of Directors has established three committees of the Board: the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee. The membership of each committee during 2008 and the function of each committee are described below. Each of the committees has adopted a charter and the charters of all committees are available on our website and in print at the written request of any stockholder addressed to Redwood s Secretary at our principal executive office.

Our Board of Directors held a total of ten meetings during 2008. The independent directors of Redwood meet in executive session at each of the five regularly scheduled meetings, for a total of five times during 2008. The Chair of the Governance and Nominating Committee, also designated as the Presiding Director, presided at executive sessions of the independent directors. No director attended fewer than 75% of the meetings of the Board of Directors and the committees on which he or she served, and as noted above, eight of our then nine directors attended last year s Annual Meeting of Stockholders in person, while one attended via teleconference.

Audit Committee

The Audit Committee provides oversight regarding accounting, auditing, risk management, and financial reporting practices of Redwood. The Audit Committee consists solely of non-management directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE and the rules of the SEC. Our Board of Directors has determined that all members of the Audit Committee are financially literate within the meaning of the applicable regulations and standards, and has designated Mr. Tyler and Ms. Proctor as audit committee financial experts within the meaning of the applicable regulations and standards. The Audit Committee met eight times in 2008 in order to carry out its responsibilities, as discussed below under Audit Committee Matters Audit Committee Report.

Compensation Committee

The Compensation Committee reviews and approves Redwood s compensation philosophy, reviews the competitiveness of Redwood s total compensation practices, determines and approves the annual base salaries and incentive awards paid to our named executive officers, approves the terms and conditions of proposed incentive plans applicable to our named executive officers and other key management employees, approves and administers Redwood s employee benefit plans, and reviews and approves hiring and severance arrangements for our named executive officers. The Compensation Committee consists solely of non-management directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE, are non-employee directors within the meaning of the rules of the SEC, and outside directors within the meaning of the rules of the Internal Revenue Service (the IRS). The Compensation Committee met five times in 2008 in order to carry out its responsibilities as more fully discussed below under Executive Compensation Compensation Discussion and Analysis.

Governance and Nominating Committee

The Governance and Nominating Committee reviews and considers corporate governance guidelines and principles, evaluates potential director candidates and recommends qualified candidates to the full Board, reviews the management succession plan and executive resources, oversees the evaluation of the Board of Directors, and, in collaboration with the Compensation Committee, evaluates management. The Governance and Nominating Committee consists solely of non-management directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE. The Governance and Nominating Committee met six times in 2008 in order to carry out its responsibilities.

TABLE OF CONTENTS

Committee Members

The current members of each of the three standing committees are listed below, with the Chair appearing first.

Audit	Compensation	Governance and Nominating
Greg H. Kubicek	Mariann Byerwalter	Richard D. Baum
Thomas C. Brown	Richard D. Baum	Greg H. Kubicek
Diane L. Merdian	Thomas C. Brown	Georganne C. Proctor
Georganne C. Proctor	David L. Tyler	Charles J. Toeniskoetter
Charles J. Toeniskoetter		
David L. Tyler		

DIRECTOR COMPENSATION

Information on our non-employee director compensation to be paid in 2009 is set forth below.

Annual Retainer	$ 50,000*
Board Meeting Fee (in person attendance)	$ 2,000
Board Meeting Fee (telephonic attendance)	$ 1,000

Committee Meeting Fee (in person attendance)	$ 2,000
Committee Meeting Fee (telephonic attendance)	$ 1,000

* The Chairs of the Audit Committee and the Governance and Nominating Committee receive an additional annual retainer of $20,000 and the Chair of the Compensation Committee receives an additional annual retainer of $15,000. Non-employee directors are also reimbursed for reasonable out-of-pocket expenses incurred in attending Board and committee meetings.

Non-employee directors are also granted deferred stock units each year following the annual meeting of stockholders. Directors may also be granted equity awards upon their initial election to the Board. Deferred stock units are credited under Redwood s executive deferred compensation plan. The number of deferred stock units granted is determined by dividing $60,000 by the closing price of the Company's common stock on the NYSE on the day immediately prior to grant. These deferred stock units are fully vested upon grant, although they are subject to a mandatory holding period due to the fact that they are not distributed from the executive deferred compensation plan in shares of common stock until a date elected by the director (with the earliest distribution date four years from the date of grant). Dividend equivalent rights on these deferred stock units are paid in cash to directors on each dividend distribution date.

Each director may elect to defer receipt of cash compensation or dividend equivalent rights on deferred stock units in Redwood s executive deferred compensation plan. Cash balances in the executive deferred compensation plan are unsecured liabilities of Redwood and are utilized by Redwood as available capital to fund investments and operations. Based on each director s election, deferred compensation can either (i) be deferred into a cash account and earn a rate of return that is equivalent to 120% of the applicable long-term federal rate published by the IRS compounded monthly or (ii) be deferred into deferred stock units which will, among other things, entitle them to receive dividend equivalent rights.

The following table provides information on non-employee director compensation for 2008. Directors who are employed by Redwood do not receive any compensation for their Board activities. During 2008 Messrs. Bull and Hansen were employees directors.

TABLE OF CONTENTS

Non-Employee Director Compensation 2008[1]

Name	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)[4]	Total ($)
Richard D. Baum	$101,000	$60,000					$161,000
Thomas C. Brown	$86,000	$60,000				$ 52,717	$198,717
Mariann Byerwalter	$90,000	$60,000				$ 56,341	$206,341
Greg H. Kubicek	$104,000	$60,000					$164,000
Diane L. Merdian[5]	$25,145	$45,041					$70,186
Georganne C. Proctor	$73,000	$60,000					$133,000

Charles J. Toeniskoetter	$84,000	$60,000		$ 13,073	$157,073
David L. Tyler	$86,000	$60,000			$146,000

(1) The table does not include dividend equivalent rights earned on deferred stock units or options, as the value of the dividend equivalent rights was factored into the grant date fair value of the original deferred stock unit and option awards in accordance with Financial Accounting Standard No. 123(R), *Shared-Based Payments* (SFAS 123(R)).

(2) Fees earned include the annual retainer and meeting fees.

(3) Value of deferred stock units awarded annually.

(4) Represents gains realized from the exercise of stock options.

(5) Diane L. Merdian was elected to the Board of Directors and Audit Committee in August 2008 and received a pro-rated annual retainer and stock award for 2008.

EXECUTIVE OFFICERS

Executive officers and their positions with Redwood as of December 31, 2008 are listed in the table below. For purposes of this proxy statement, the named executive officers (NEOs) are Messrs. Bull, Hansen, Hughes, Nicholas, and Zagunis.

Name	Position with Redwood as of December 31, 2008	Age
George E. Bull, III	Chairman of the Board and Chief Executive Officer	60
Douglas B. Hansen[1]	President and Director	51
Martin S. Hughes[2]	Co-Chief Operating Officer, Chief Financial Officer, and Secretary	51
Brett D. Nicholas	Co-Chief Operating Officer and Chief Investment Officer	40
Harold F. Zagunis[3]	Managing Director and Controller	51
Raymond S. Jackson[4]	(Not employed by Redwood as of December 31, 2008)	36

(1) Mr. Hansen retired from employment as President of Redwood effective December 31, 2008.

(2) Effective January 1, 2009, Mr. Hughes was appointed President and, effective January 29, 2009, Mr. Hughes ceased to serve as Secretary.

(3) Effective January 29, 2009, Mr. Zagunis was appointed Chief Risk Officer and ceased to serve as Controller. On January 29, 2009, Mr. Christopher J. Abate was appointed Controller.

(4) Effective June 16, 2008, Mr. Jackson ceased to serve as Controller and Mr. Zagunis was appointed Controller. Mr. Jackson resigned from employment with Redwood effective July 1, 2008.

Executive officers of Redwood serve at the discretion of our Board of Directors. Biographical information regarding Messrs. Bull and Hansen is provided in the preceding pages. Biographical information regarding Messrs. Hughes, Nicholas, and Zagunis is set forth below. Biographical information regarding Mr. Jackson is set forth in Redwood s 2008 annual proxy statement. Biographical information regarding Mr. Abate is set forth in Redwood s Form 8-K filed on January 29, 2009.

TABLE OF CONTENTS

Martin S. Hughes, age 51, has served as President since January 2009 and as Chief Financial Officer since 2006. Mr. Hughes also serves as Co-Chief Operating Officer of Redwood, and with Mr. Nicholas, is responsible for managing Redwood s day-to-day operations. Mr. Hughes joined Redwood as a Vice President in 2005 after working as a financial consultant to Redwood in 2004 and 2005. Mr. Hughes has over 16 years of senior management experience in the financial services industry. From 2000 to 2004, Mr. Hughes was the President and Chief Financial Officer of Paymap Inc. Mr. Hughes also served as Vice President and Chief Financial Officer of Redwood in 1999. Mr. Hughes served as Chief Financial Officer of North American Mortgage Company from 1992 to 1998. Prior to 1992, Mr.

Hughes was employed for eight years at an investment banking firm and for four years at Deloitte & Touche LLP. Mr. Hughes has a B.S. in Accounting from Villanova University.

Brett D. Nicholas, age 40, has served as Chief Investment Officer and Co-Chief Operating Officer since 2007, and Vice President of Redwood since 1996. Mr. Nicholas, with Mr. Hughes, is responsible for managing Redwood s day-to-day operations. Prior to joining Redwood, he was Vice President of Secondary Marketing at California Federal Bank, FSB and Vice President of Secondary Marketing at Union Security Mortgage. Mr. Nicholas holds a B.A. in Economics from the University of Colorado at Boulder and is a graduate of the Stanford University Executive Program.

Harold F. Zagunis, age 51, has served as Chief Risk Officer since January 2009, Managing Director since March 2008, Vice President from 1995 to 2008, and additionally as Controller from 1999 to 2006, and as Chief Financial Officer, Treasurer, and Secretary from 1999 to 2006. Prior to joining the Company, from 1986 to 1995, Mr. Zagunis was Vice President of Finance for Landmark Land Company, Inc. (Landmark), a publicly traded company owning savings and loan and real estate development interests, and since 2007, has served as a director of Landmark. Mr. Zagunis holds B.A. degrees in Mathematics and Economics from Willamette University and an M.B.A. from Stanford University Graduate School of Business.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information as of March 18, 2009, on the beneficial ownership of our common stock by our directors, named executive officers, and by all of our directors and executive officers as a group. As indicated in the notes, the table includes common stock equivalents held by these individuals through Redwood-sponsored benefits programs. Except as otherwise indicated and for such power that may be shared with a spouse, each person has sole investment and voting power with respect to the shares shown to be beneficially owned. Beneficial ownership is determined in accordance with the rules of the SEC.

Name	Number of Shares of Common Stock Beneficially Owned(1)	Percent of Class(2)	
George E. Bull, III(3)	724,718	1.2	%
Martin S. Hughes(4)	54,281	*	
Brett D. Nicholas(5)	160,409	*	
Harold F. Zagunis(6)	87,594	*	
Richard D. Baum(7)	21,487	*	
Thomas C. Brown(8)	12,450	*	
Mariann Byerwalter(9)	13,499	*	
Douglas B. Hansen(10)	585,169	1.0	%
Greg H. Kubicek(11)	74,702	*	
Diane L. Merdian(12)	8,990	*	
Georganne C. Proctor(13)	10,323	*	
Charles J. Toeniskoetter(14)	30,647	*	
David L. Tyler(15)	33,972	*	
All directors and executive officers as a group (14 persons)(16)	1,819,241	3.0	%

* Less than 1%.

(1) Represents shares of common stock outstanding, common stock underlying vested options that are exercisable within 60 days of March 18, 2009, and common stock underlying deferred stock units that have vested or will vest within 60 days of March 18, 2009. Does not include deferred stock units

12

TABLE OF CONTENTS

scheduled to be granted to non-employee directors in accordance with our non-employee director compensation policy following our 2009 Annual Meeting of Stockholder.

(2) Based on 60,222,048 shares of our common stock outstanding as of March 18, 2009.

(3) Includes 426,677 shares held of record by the Bull Trust, 600 shares held of record by Mr. Bull s spouse, 260,086 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009, and 12,744 deferred stock units that have vested or will vest within 60 days of March 18, 2009.

(4) Includes 49,281 deferred stock units that have vested or will vest within 60 days of March 18, 2009.

(5) Includes 66,776 shares issuable upon the exercise of stock options exercisable within 60 days March 18, 2009, and 69,220 deferred stock units that have vested or will vest within 60 days of March 18, 2009.

(6) Includes 40,521 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009 and 44,305 deferred stock units that have vested or will vest within 60 days of March 18, 2009.

(7) Includes 11,756 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009.

(8) Includes 6,300 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009.

(9) Includes 6,300 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009 and 5,524 vested deferred stock units.

(10) Includes 156,995 shares held of record by the Hansen Revocable Living Trust, 191,168 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009, and 237,006 vested deferred stock units.

(11) Includes 14,664 shares held in GK Holt Company Inc. Money Purchase Pension & Profit Sharing Plan & Trust, 10,124 shares held in a living trust, 935 shares held of record by Mr. Kubicek s spouse, 6,495 shares held of record by Mr. Kubicek s children, 2,500 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009, and 3,920 vested deferred stock units.

(12) Includes 8,990 shares held through the Diane Merdian Revocable Trust.

(13) Includes 9,845 shares held in the Proctor Trust and 478 deferred stock units that have vested or will vest within 60 days of March 18, 2009.

(14) Includes 19,347 shares with respect to which Mr. Toeniskoetter has voting and investment power that are held in the Toeniskoetter & Breeding, Inc. Development Profit Sharing Trust, and 11,300 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009.

(15) Includes 10,000 shares issuable upon the exercise of stock options exercisable within 60 days of March 18, 2009.

(16) Includes beneficial ownership by Christopher J. Abate, who was designated as executive officer on January 29, 2009.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of dated noted below, with respect to shares of our common stock owned by each person or entity (excluding our executive officers) known by us to be the beneficial owner of more than 5% of our common stock.

Name of Beneficial Owner	Number of Shares of Common	Percent of Class[(1)]

	Stock Beneficially Owned		
Wallace R. Weitz & Company[2]	7,336,865	12.2	%

(1) Based on 60,222,048 shares of our common stock outstanding as of March 18, 2009.

(2) Address: 1125 South 103 Street, Suite 600, Omaha, Nebraska 68124. The information in the above table and this footnote concerning the shares of common stock beneficially owned by Wallace R. Weitz & Company (Weitz) is based upon the amended Schedule 13G filed by Weitz with the SEC on January 14, 2009, as modified by information as of February 28, 2009 subsequently provided by Weitz to Redwood. The aggregate number of shares of common stock beneficially owned by Weitz includes 7,336,865 shares with respect to which Weitz has sole dispositive power and 7,267,465 shares with respect to which it has sole voting power. As of March 18, 2009, shares of common stock held by Weitz are subject to a Voting

TABLE OF CONTENTS

Agreement, which is not subject to specific duration, pursuant to which Weitz transferred its voting rights with respect to shares beneficially held by Weitz and its affiliates in excess of 9.8% of Redwood s total issued and outstanding capital stock (Excess Shares). In accordance with the Voting Agreement, Excess Shares are voted by management of Redwood in the same proportion as the votes cast by all stockholders other than Weitz and its affiliates. A copy of the Voting Agreement, as amended, has been filed as Exhibits 9.3 and 9.4 to the Annual Report on Form 10-K of Redwood Trust, Inc. for the year ended December 31, 2008.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information, as of December 31, 2008, with respect to compensation plans under which equity securities of the registrant are authorized for issuance.

Plan Category	Plan Name	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plan approved by security holders	2002 Incentive Plan	2,378,404 (1)	$ 41.4629 (2)	1,005,937
Equity compensation plan approved by security holders	2002 Employee Stock Purchase Plan			32,694 (3)
Equity compensation plans not approved by security holders	None			
Total		2,378,404 (1)	$ 41.4629 (2)	1,038,631 (3)

(1) As of December 31, 2008, 1,730,531 shares of common stock may be issued pursuant to outstanding deferred stock units. As of December 31, 2008, 647,873 shares of common stock may be issued pursuant to outstanding options to purchase common stock.

(2) As of December 31, 2008, the weighted-average exercise price of outstanding options to purchase common stock was $41.4629. Under our 2002 Incentive Plan no exercise price is applicable to deferred stock units.

(3) Number of securities remaining available for future issuance does not reflect our proposed amendment to our 2002 Employee Stock Purchase Plan to increase by 100,000 the number of shares of our common stock available for purchase thereunder, as described herein under Item 3 Approval of Amendment to 2002 Employee Stock Purchase Plan.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee (the Committee) of Redwood s Board of Directors consists exclusively of independent directors as defined by the NYSE. The Committee acts on behalf of our Board of Directors in administering Redwood s executive compensation plans and programs.

The Committee consists of Mariann Byerwalter (Chair), Richard D. Baum, Thomas C. Brown, and David L. Tyler. The Committee met five times in 2008.

The Committee is committed to providing disclosure within this Compensation Discussion and Analysis that gives insight into the process by which the Committee arrives at determinations relating to executive compensation and the underlying rationale for those determinations. Among other things, this Compensation Discussion and Analysis:

addresses how the Compensation Committee reviews all components of the Chief Executive Officer s compensation and that of the other Named Executive Officers (NEOs);

TABLE OF CONTENTS

discloses the performance measures and goals used for all performance-based compensation and discusses the factors taken into account in the Committee s determination of whether those measures and goals were satisfied;

explains severance and change of control payments that NEOs may become entitled to under certain circumstances, which the Committee annually reviews, including through the use of tally sheets; and

explains the role of the Committee s outside compensation consultant and that consultant s independence from management of the Company.

In 2008, the Company s return on equity, which is the metric that underlies the Company s performance-based compensation metric for executives, was negative. In addition, there was significant market turmoil during 2008, which resulted in a decrease in the Company s market capitalization. As discussed more fully in this Compensation Discussion and Analysis, these factors, their effect on the competitive landscape for executive compensation, and other factors, resulted in the Committee making the following determinations:

base salaries for each of the Company s NEOs would remain unchanged for 2009 (meaning that in the case of Mr. Bull and Mr. Nicholas, their 2009 salaries would remain at 2007 levels);

no Company performance bonuses were paid to the NEOs for 2008; and

the value of year-end long-term equity grants made to NEOs in December 2008, which are generally determined based on the 75th percentile relative to peers, were reduced by 30% from the amount determined based on such 75th percentile.

Overall Compensation Philosophy and Objectives

Redwood has adopted a performance-based compensation philosophy for its executive officers that focuses executive behavior on the achievement of both short-term and long-term business objectives and strategies and also strives to ensure that we can hire and retain talented individuals in a competitive marketplace. The Committee is generally responsible for evaluating and administering our executive compensation programs and practices to ensure that they provide proper incentives and appropriately drive corporate performance.

Our objectives in establishing executive compensation are as follows:

Attract and retain highly qualified and productive executives;
Motivate executives to enhance the overall performance and profitability of Redwood, both on short-term and long-term bases, with an emphasis on the long-term;
Reinforce the linkage between the interests of Redwood s stockholders and executives by encouraging Company ownership by executives and employees and rewarding stockholder value creation; and
Ensure that compensation levels are both externally competitive and internally equitable.

Cash compensation each year for Redwood s executive officers consists of a base salary and a cash bonus. The cash bonus is primarily determined based on Company performance, with individual performance a secondary determinant. Redwood seeks to have an executive compensation structure that awards cash compensation (salary plus bonus) upon achievement of performance targets; it is intended that this compensation structure have cash compensation targets that are similar to the median target cash compensation awarded by a peer group of companies that compete with Redwood, including competition for executives and other employees.

For compensation that is awarded based on Company performance, the current target level of Company performance for this purpose is 11% annual adjusted return on equity (as described further below under Performance-Based Compensation). For adjusted return on equity performance above or below the target level, we intend that the compensation program deliver cash compensation that is above or below, as applicable, the median range of a peer group of companies that compete with Redwood. To a lesser degree, total cash compensation for each year also varies as a function of individual performance.

With respect to long-term equity compensation, Redwood generally seeks to make regular annual awards at levels that exceed the market median of the Company s peer group. The value realized by an executive from these long-term equity compensation awards will depend on dividends and stock price performance over extended vesting and deferral periods, as determined by the Committee to be appropriate.

The peer group of companies most recently utilized by the Committee for benchmarking comparisons is described further below under Compensation Benchmarking.

Determination of Compensation

The Committee is charged with the primary authority to make determinations and recommendations of compensation awards available to Redwood s NEOs. For 2008, the NEOs consisted of Messrs. Bull, Hansen, Nicholas, Hughes, and Zagunis. Redwood s compensation setting process is dynamic and is evaluated on an annual basis. As has been its practice for a number of years, the Committee utilizes the services of a nationally recognized independent compensation consultant, Frederic W. Cook & Co., Inc., to assist the Committee in determining the elements of its compensation programs and to provide benchmarking analysis. Frederic W. Cook & Co., Inc. does no other work for

Redwood or its management and the Committee has the sole authority to hire and fire its compensation consultant.

On an annual basis, Frederic W. Cook & Co., Inc. reviews the executive compensation program with the Committee and assesses the competitiveness of compensation levels for the NEOs to ensure that the compensation is aligned with the Company s compensation philosophy. Frederic W. Cook & Co., Inc. also provides the Committee with analysis of compensation practices among the Company s peer group and an analysis for each Redwood NEO. The analysis prepared by Frederic W. Cook & Co., Inc. includes tally sheets that show total cash compensation for each NEO (and year-to-year comparison or total cash compensation), total equity ownership in Redwood by each NEO (and the value of such equity stake at different values per share), and total compensation in cash and equity awards for each NEO. In particular, the tally sheets assist the Committee in understanding the extent to which different components of each executive s compensation are above or below the median for Redwood s peer group and the year-to-year changes in NEO compensation.

In addition, Frederic W. Cook & Co., Inc. assists the Committee with respect to the determination of the amounts, form, and structure of the compensation programs adopted by Redwood. Based on the Committee s judgment and reflecting Frederic W. Cook & Co., Inc. s input, Redwood s executive compensation package consists of a fixed base salary and variable cash and equity-based incentive awards, with a significant portion of compensation allocated to the variable and equity-based components to appropriately align total executive compensation with individual and Company performance. Each of these compensation package elements is reviewed by the Committee each year with respect to each NEO.

In 2008, Redwood s Chairman and Chief Executive Officer provided the Committee with his recommendations with respect to the compensation of the other NEOs (other than Mr. Hansen). In addition, on an annual basis, the Committee is provided with a self-assessment from each of the NEOs regarding their own evaluation of individual and collective performance over the prior year. The Committee takes these recommendations into consideration when determining levels of cash and equity compensation.

In November 2007, Mr. Hansen announced his intention to retire at the end of 2008, and effective December 31, 2008 he ceased to serve as President of Redwood. Throughout 2008, Mr. Hansen s primary responsibility was to provide for an effective transition of his role and responsibilities to other officers of Redwood. Mr. Hansen remains a director of the Company, will be compensated as a non-employee director beginning in January 2009, and will be eligible to receive an annual director equity grant in May 2009 equal to that awarded other non-employee members of the Board of Directors.

In order to comprehensively address the various compensation and long-term incentive award related matters arising in connection with his retirement, on December 10, 2008, Redwood s Board of Directors and Compensation Committee, after consultation with Frederic W. Cook & Co., approved a Transition Agreement between Redwood and Mr. Hansen, which terminated his Employment Agreement with the Company and which provided:

for payment of a 2008 annual bonus to Mr. Hansen equal to that received by the Chief Executive Officer for 2008, to be paid when the Company makes 2008 bonus payments to its employees;

TABLE OF CONTENTS

that Mr. Hansen would not be eligible to receive a long-term equity incentive grant at the end of 2008;

for vesting of Mr. Hansen s outstanding deferred stock awards as of January 1, 2009; and

for an amendment to Mr. Hansen s outstanding option agreements to provide that his options continue to be exercisable while he continues to serve on the Board of Directors and, in certain circumstances, for a period of up to twelve months following termination of his service.

A copy of the Transition Agreement between Redwood and Mr. Hansen was filed as Exhibit 10.27 to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Compensation Benchmarking

As in prior years, in 2008 the Committee asked Frederic W. Cook & Co., Inc. to conduct a market pay analysis of a peer group of companies. The Committee considers the use of a peer group important to remain competitive. In considering the market pay analysis, the Committee considered the fact that the peer group of companies used for comparison did not include generally higher-paying externally-managed REITs, private equity firms, and hedge funds with which Redwood must compete for executive talent. Frederic W. Cook & Co., Inc. did not include those companies in the peer group because they have different business economics and pay models than Redwood. The Committee was also cognizant of competitive evidence suggesting that the upside potential in Redwood s annual bonuses was lower than that of Redwood s peers at higher levels of Redwood performance.

Following the completion of the competitive pay analysis prepared by Frederic W. Cook & Co., Inc., the Committee concluded that:

The primary peer group should continue to be other major internally-managed mortgage REITs and taxable mortgage, investment banking, specialty-finance, real-estate, and investment management companies with comparable business economics and pay models to Redwood. However, the significant disruptions to the credit markets in 2008 resulted in several changes to the peer group from the prior year, primarily due to the acquisition or bankruptcy of several peer group firms.

Salaries and target annual bonuses should continue to be oriented at or near the median target levels of compensation at this group of peer companies;

Executive annual bonuses should have adequate upside opportunity so that delivered total annual compensation may potentially reach the top-quartile of the peer group for strong absolute Company performance; and

Competitive pressure from higher-paying related market sectors should be addressed by awarding long-term equity grants with values near the 75th percentile relative to the peers, although, at its final meeting in 2008, the Committee determined that the actual grant values determined based on the 75th percentile relative to peers would be reduced by 30% to address the decrease in market capitalization of the Company during 2008 resulting from the significant and wide-spread financial market turmoil in 2008.

The peer group of companies utilized by the Committee in 2008 consisted of: Allied Capital Corporation, American Capital Strategies, Ltd., Annaly Capital Management, Inc., CapitalSource Inc., Capital Trust Inc., Capstead Mortgage Corporation, Centerline Holding Company, Gramercy Capital Corp., IndyMac Bancorp Inc., iStar Financial Inc., Northstar Realty Finance Corporation, Ocwen Financial Corporation, and PHH Corporation. The Committee reviews the list of peer companies on an annual basis to confirm that the companies included continue to meet the Committee s criteria for inclusion. The Committee also takes into consideration changes in real estate and capital markets and changes in competitors. Accordingly, the companies included in the peer group may change from year to year as a result of this review and, as noted above, the significant disruptions to the credit markets in 2008 resulted in several changes to the peer group, primarily due to the acquisition or bankruptcy of several peer group firms. Similar factors may result in changes to the peer group over the course of 2009.

17

TABLE OF CONTENTS

In the comparative analysis, executive positions (other than Mr. Hansen) were matched against benchmarks for functionally similar executive positions from the peer companies as set forth below. As noted above, during 2008 Mr. Hansen s primary responsibility was to provide for an effective transition of his role and responsibilities to other officers of Redwood. As a result of this transition, the benchmarks used for comparison of the other NEOs against their functional equivalents at peer group companies were updated from the prior year to capture the scope of their roles during 2008. In addition, because of the Transition Agreement between Mr. Hansen and Redwood, functional benchmarks for Mr. Hansen were not meaningful in determining his compensation.

Mr. Bull was matched to the Chief Executive Officer position at peer group companies.
Mr. Hughes and Mr. Nicholas, who functioned as Co-Chief Operating Officers during 2008, were generally matched to a combination of two most senior officers below the level of Chief Executive Officer (excluding presidents and vice-chairmen with broader responsibilities) at peer group companies.
Mr. Zagunis was matched to the fifth highest paid executive at peer group companies, which was considered reflective of the broad range of responsibilities in his position.

Base Salary

The Company seeks to establish base salaries of NEOs around the median of base salaries paid by the peer group. In setting base salaries for NEOs, in addition to the analysis prepared by Frederic W. Cook & Co., Inc., the Committee annually reviews data from available published compensation surveys and proxy statements filed by the peer group. The Committee reviews base salaries as one part of overall compensation for the NEOs annually. The Committee may make adjustments to base salary based on the executive s experience and responsibilities and after consideration of other components of compensation. As noted above, base salaries are targeted at the median level relative to the Company s peer group.

Base salaries for 2008 for Messrs. Bull, Hansen, and Nicholas were unchanged from 2007. Base salaries for Messrs. Hughes and Zagunis were increased from 2007 to reflect their changing roles in light of Mr. Hansen s announced retirement plans and other changes in personnel at the Company, and, in the case of Mr. Hughes, to reflect his role as Co-Chief Operating Officer.

In December 2008, the Compensation Committee determined that base salaries for each of Messrs. Bull, Hughes, Nicholas, and Zagunis would remain unchanged for 2009.

Performance-Based Compensation

Redwood s compensation program is designed to reward NEOs based on the Company s performance and the individual executive s contribution to that performance. As an integral part of this program, executive officers receive annual bonuses in the event specified Company and individual performance measures are achieved.

In order to better align the interests of Redwood s executive officers with the interests of its stockholders, executive s target annual bonuses are weighted 75% on the achievement of a predetermined goal of financial performance and 25% on the achievement of pre-established individual goals. This 75%/25% allocation is used because it has the result that most of an executive s target annual bonus will depend directly on the achievement of financial performance for shareholders, while also providing incentives for achievement of individual goals that the Committee believes are in the interest of the Company and shareholders, but which may be difficult to quantitatively link directly to financial performance of the Company.

The table below sets forth the 2008 targets for each NEO assuming achievement of the criteria necessary to achieve 100% of the target bonus.

	Mr. Bull and Mr. Hansen	Mr. Hughes and Mr. Nicholas	Mr. Zagunis
Base Salary	$ 700,000	$ 500,000	$ 400,000
Target Bonus (%)	125 %	100 %	75 %
Target Bonus ($)	$ 875,000	$ 500,000	$ 300,000
Company Performance Target (Adjusted ROE Component)	$ 656,250	$ 375,000	$ 225,000
Individual Performance Target	$ 218,750	$ 125,000	$ 75,000

In 2008, the Committee maintained the same Company performance bonus formula as was in place for 2007. The Company performance bonus is based on the achievement of an adjusted return on equity (Adjusted ROE). Adjusted ROE is defined as income determined in accordance with generally accepted accounting principles (GAAP) divided by core equity, subject to adjustment when circumstances warrant at the discretion of the Committee. Core equity is defined as average GAAP equity excluding unrealized mark-to-market adjustments as reflected in accumulated other comprehensive income (loss). The Committee has determined that Adjusted ROE provides an appropriate measurement of the Company s performance because, as a company whose primary source of earnings is income from real estate investments, the use of core equity reflects the amount of capital the Company has to invest (as it excludes the effect of unrealized market valuation adjustments).

The specific Company performance bonus formula is as follows:

For Adjusted ROE of less than or equal to 7%, no Company performance bonus would be paid;
For Adjusted ROE of 11%, 100% of target Company performance bonus would be paid;
For Adjusted ROE between 7% and 11%, the Company performance bonus would be pro-rated between 0% and 100%; and
For Adjusted ROE in excess of 11%, the Company performance bonus would be increased by an amount such that the total target bonus would increase by one-third for every 1% increase in Adjusted ROE above 11%, subject to a maximum described below.

The Committee determined that individual performance in 2008 for each NEO would be reviewed in the context of the specific criteria discussed below. The individual performance component of the bonus may be earned up to 100% of the target bonus amount allocated to individual performance. The maximum sum of the two annual incentive component awards in 2008 was $5 million for each of Messrs. Bull and Hansen and $2 million for each of the other NEOs.

Bonus awards earned in excess of 300% of annual base salary are paid in deferred stock units under the Company s executive deferred compensation plan. These excess bonus deferred stock units, if awarded, are fully vested at the award date, receive cash dividend equivalent rights (which can be deferred at the executive s election), and are distributed in shares at the earlier of three years from the date of grant or termination of employment (unless the executive voluntarily defers for a longer period of time).

Performance-Based Compensation Awarded in 2008. In 2008, the Company s Adjusted ROE was negative. Consequently, no Company performance bonus was paid to the NEOs in 2008.

The individual performance awards were determined after a review of the individual achievements of each NEO, including actions taken to position Redwood to emerge viably from the financial market turmoil of 2008. The Committee s review of individual performance also included a review of each NEOs self-assessment, the assessment by Mr. Bull of the other NEOs (other than Mr. Hansen), and input from Frederic W. Cook & Co., Inc. Among other factors, the Committee considered each of the factors noted below that the Committee had previously determined would be reviewed in assessing individual performance in 2008. With respect to each of these criteria, the Committee noted the following achievements (presented in italics after each criterion):

Make appropriate progress in a disciplined manner towards achieving Redwood s mission of growing to $5 billion market capitalization by 2012 *the Committee evaluated this criterion in the context of the significant financial market turmoil in 2008 and the fact that, unlike many of its competitors, the Company endured this turmoil, maintained a strong balance sheet and liquidity, maintained its good reputation, undertook appropriate steps to determine when, and in what form, the Company should raise additional capital, and is positioned to take advantage of business opportunities that arise.*

Make significant progress as a management team in transitioning operating responsibilities to Messrs. Hughes and Nicholas, in connection with their roles as co-Chief Operating Officers and Mr. Hansen s retirement *the Committee evaluated this criterion in the context of the successful transition of responsibilities in connection with Mr. Hansen s retirement and the success of Mr. Hughes and Nicholas in transitioning into the roles of Co-Chief Operating Officers.*

Expand Redwood s prime residential business *the Committee evaluated this criterion in the context of the significant financial market turmoil in 2008 and took notice of the fact that the Company had taken steps to adjust its investment strategy with respect to residential assets in 2008, improved its investment acquisition decision-making process, and further developed its ongoing portfolio management tools.*

Position Redwood to be part of the capital markets solution for financing real estate loans and securities *the Committee evaluated this criterion in the context of the significant and wide-spread financial market turmoil in 2008 and took into account the ongoing efforts of the Company to be active in various forums that are considering appropriate steps to implement, and analyze the issues associated with, potential future solutions*.

Develop an optimally staffed commercial platform to make investments, efficiently manage assets, and capitalize on new opportunities in 2008 *the Committee evaluated this criterion in the context of the significant and wide-spread financial market turmoil in 2008 and, in particular, the disruption to the commercial real estate financing markets; and the fact that management had communicated with the Board throughout the year on why aspects of this process should be postponed into subsequent periods.*

Launch an asset management business and initiate and close a private limited partnership fund *the Committee evaluated this criterion in the context of the successful launch of the Opportunity Fund, a private limited partnership fund managed by Redwood Asset Management and management s ongoing discussions with the Board regarding future plans for the asset management business.*

Manage employees to consistently perform at a high level leading to attractive business results *the Committee evaluated this criterion in the context of various factors, including the implementation of a performance tracking system and steps taken to develop future company leaders*.

Maintain an operating platform that is efficient and scalable *the Committee evaluated this criterion in the context of various factors, including steps management had taken to adjust the size of the Company s workforce in response to the changes in the Company s business activities resulting from the significant financial market turmoil in 2008, while maintaining the Company s high standards and scalability and preserving the Company s ability to be competitive as market developments continue in the future*.

Utilize capital efficiently *the Committee evaluated this criterion in the context of various factors, including the fact that the Company has emerged viably from the significant and wide-spread financial market turmoil in 2008 in large part due to the Company s overall strategy of not attempting to increase returns by using high degrees of leverage, maintaining discipline in taking credit risk which resulted in utilizing capital in mostly prime, higher-rated securities, not re-establishing securitization programs based on understanding the fundamentals of the underlying assets and markets, and maintaining a strong balance sheet and liquidity throughout the year*.

In 2008, based on the Committee s assessment of the above criteria and the individuals specific contributions towards the stated objectives, each NEO s individual performance award equaled 100% of their target.

Performance-Based Compensation in 2009. With respect to 2009, the Committee has determined, after consultation with Frederic W. Cook & Co., Inc., that target annual bonuses for executives will continue to be weighted 75% on Company performance in a manner similar to 2008 and 25% on individual performance metrics. As a result, in 2009 the specific Company performance bonus formula will be as follows:

For Adjusted ROE of less than or equal to 7%, no Company performance bonus will be paid;
For Adjusted ROE of 11%, 100% of target Company performance bonus will be paid;
For Adjusted ROE between 7% and 11%, the Company performance bonus will be pro-rated between 0% and 100%; and
For Adjusted ROE in excess of 11%, the Company performance bonus will be increased by an amount such that the total target bonus would increase by one-third for every 1% increase in Adjusted ROE above 11%, subject to a maximum described below.
As noted above, the benchmarks for functionally similar executive positions for the NEOs (other than Mr. Hansen and Mr. Zagunis) were updated by the Committee, after discussion with Frederic W. Cook & Co., Inc., from the prior year to capture the scope of their roles during 2008. Consistent with these updates, the Committee, after discussion with Frederic W. Cook & Co., Inc., increased the target bonus percentage for 2009 for Mr. Bull to 175%, and for each of Mr. Hughes and Mr. Nicholas to 150%, to reflect their roles in management following the departure of Mr. Hansen.

In addition, the maximum sum of the two annual incentive component awards in 2009 will be $5 million for Messrs. Bull, Hughes, and Nicholas and $2 million for each of the other NEOs. These caps, and the increases in the caps from 2008 applicable to Messrs. Hughes and Nicholas, were, after consultation with Frederic W. Cook & Co., Inc., deemed appropriate by the Committee as maximum bonuses for each of the NEOs based on their position, responsibilities, level of performance needed to reach the cap, and the peer companies bonus structures, and after taking into account the changing roles of Messrs. Hughes and Nicholas in light of Mr. Hansen s retirement.

The Committee has also reviewed and approved factors and goals that will be used over the course of 2009 to evaluate each NEOs individual performance in 2009 and which will be used at the end of 2009 as a basis for the Committee s assessment of the determining how much of each NEOs individual performance target bonus would be awarded.

Long-Term Compensation Awards

As discussed above under Employee Stock Ownership Philosophy, equity ownership in Redwood provides an important linkage between the interests of stockholders and executives by rewarding long-term stockholder value creation. To meet this objective, officers, directors, key employees, and other persons expected to contribute to the management, growth, and profitability of Redwood are eligible to receive long-term equity grants. The Committee, in consultation with Frederic W. Cook & Co., Inc., determines guidelines and procedures for the issuance of those grants to the NEOs. Guidelines are based upon a number of factors, including the officer s total compensation level, individual and Company performance, and comparison to executives in functionally similar positions at peer companies. The Committee also takes into consideration past grants and outstanding awards.

The Committee has typically made long-term equity grants to the NEOs in the fourth quarter and typically makes long-term equity grants to other executives and employees at the same time that is does so for NEOs. However, with respect to 2007, the Committee determined long-term equity grants for the NEOs in January 2008 rather than the fourth quarter of 2007 in order to take into account in its analysis the market turmoil that developed in late 2007 and to take into account the transitioning of certain executive roles. In addition, with respect to 2007, certain awards to NEOs were made in the form of deferred balances in the Company s Executive Deferred Compensation Plan pending conversion into deferred stock units following approval of additional Incentive Plan capacity by the Company s shareholders in May 2008.

TABLE OF CONTENTS

With respect to 2008, the Committee returned to its normal practice and made long-term equity grants in the form of deferred stock units to the NEOs (and to other executives and employees) in the fourth quarter. With respect to the grants made in the fourth quarter of 2008, 25% of each award vests on January 1, 2010, and an additional 6.25% vests on the first day of each subsequent quarter, with full vesting on January 1, 2013, assuming continued service with the Company. These deferred stock unit awards will be distributed in shares of common stock on May 1, 2013, unless electively deferred by the executive under the terms of the executive deferred compensation plan. The number of deferred stock units to be granted to each NEO is determined based on the dollar amount of the award granted to each NEO divided by the closing price of the Company's common stock on the NYSE on the day immediately prior to grant.

In December 2008, the Committee determined, after consultation with Frederic W. Cook & Co., Inc., that the deferred stock unit awards to the NEOs would consist of the following: Mr. Bull was granted 190,100 deferred stock units, Mr. Hughes was granted 215,500 deferred stock units, Mr. Nicholas was granted 115,500 deferred stock units, and Mr. Zagunis was granted 56,500 deferred stock units. As noted above, in accordance with the terms of his Transition Agreement, Mr. Hansen did not receive a long-term equity grant at the end of 2008.

As discussed above, the December 2008 awards reflect the Committee s decision, after receiving input from Frederic W. Cook & Co., Inc., that each award would be determined based on grant values that were near the 75th percentile relative to peers, but then reduced each award by 30% to address the decrease in market capitalization of the Company during 2008 resulting from the significant and wide-spread financial market turmoil in 2008. The Committee also determined to increase Mr. Hughes award by 100,000 deferred stock units to reflect his increased leadership role at Redwood and to bring his equity interest in the Company to a level commensurate with the other Co-Chief Operating Officer of the Company.

Certain of the long-term equity grants (including those awarded in 2008) have attached dividend equivalent rights, resulting in the payment of dividends equivalents each time the Company pays a common stock dividend. The value of any dividend equivalent rights was taken into account in establishing the grant date fair value of these grants under SFAS 123(R) at the time the related equity grants were made. Therefore, the value of the current dividend equivalent right payments are not considered part of the compensation value reported above in the table of non-employee director compensation under Director Compensation or below in the summary table of NEO compensation under Executive Compensation Tables Summary Compensation.

The Committee annually reviews long-term equity incentive strategies, with the objective of gaining a competitive advantage for the Company through increased executive and employee ownership, as well as retention of outstanding individual performers at all levels of the Company.

Mandatory Holding Period for Long-Term Equity Grants. The long-term equity grants made to NEOs in January 2008 (which, as noted above, represented the 2007 long-term equity grant) and December 2008 have the four year vesting schedule described above. Notwithstanding this vesting schedule, the earliest these awards will be distributed to the NEOs in shares of common stock (and, as a result, the earliest these shares could be sold or transferred by the NEOs) is May 1, 2012, with respect to the January 2008 grants, and May 1, 2013, with respect to the December 2008 grants. As a result, the NEOs are subject to a mandatory holding period with respect to all shares that vest prior to the distribution date.

Treatment of Certain Previously Granted Options. During 2001 and 2002, stock option grants included a stock-for-stock reload feature to encourage executives and directors to acquire and accumulate ownership of actual shares of stock, rather than hold unexercised stock options without ownership and personal investment risk. When a holder of a reload option exercises the option using owned shares of common stock to pay the exercise price of the option, the option holder is automatically granted, as of the date of exercise of the original option, a reload option to purchase the number of shares of common stock equal to the number of shares used to pay the exercise price of the original option. The reload option is only for the remaining term of the original option and is fully-vested at grant. If the Company withholds shares to pay the option holder s withholding taxes, the reload option will also include a number of shares related to the number of shares withheld. The exercise price of the reload option is the fair market value of the common stock as of the day the reload option is granted. There are no dividend equivalent rights on the reload stock

options. Redwood has not granted stock options with this reload feature since 2002. The Compensation Committee does not consider these reload options to represent incremental compensation value for purposes of determining current long-term equity grant levels, because the reloads are an extension of the originally granted options.

Deferred Compensation

Under the Company s executive deferred compensation plan, NEOs may elect to defer up to 100% of their cash compensation as well as dividend equivalent right payments on deferred stock units and options, and under certain circumstances, can also elect to re-defer scheduled distributions of cash or stock from the deferred compensation plan. Additionally, deferred stock units granted to executives are automatically deferred under the executive deferred compensation plan. Deferred amounts may be deferred until a date chosen by the executive at the time of the initial deferral (subject to certain restrictions) or until the executive s retirement, at which time the balance in the executive s account will be paid in cash or common stock (as applicable), or will be paid out over a period of up to 15 years, depending upon the executive s deferral elections. Cash amounts deferred under the executive deferred compensation plan are credited with interest at 120% of the long-term applicable federal rate as published by the IRS. Amounts deferred under the Executive Deferred Compensation Plan remain available to the Company for general corporate purposes pending the obligation to deliver the deferred amounts to the recipients (in cash or in shares of common stock) on the deferral date. The ability of recipients to elect to receive interest on deferred amounts is one incentive to participate in the Plan, thereby making funds available for the Company s use at a cost that is generally below the Company s normal cost of capital.

The Company also matches 50% of cash compensation deferred by participants in the executive deferred compensation plan, provided that total matching payments made by the Company to participants in the executive deferred compensation plan and the 401(k) plan (discussed below) are limited to 6% of the participant s base salary. Vesting of the match payments is based on the employee s tenure with the Company, and over time, an employee becomes increasingly vested in both prior and new matching payments. Employees are fully vested in all prior and all new matching payments after six years of employment.

In 2008, in connection with an amendment to the Executive Deferred Compensation Plan, and in accordance with the regulations promulgated by the IRS under Section 409A of the Internal Revenue Code, participants in the Executive Deferred Compensation Plan had the option to make a one-time election to revise existing distribution elections, including an election to receive distributions in 2009 of vested amounts that were otherwise scheduled to be distributed in 2009 or later.

We believe the executive deferred compensation plan provides for, among other things, a vehicle for the Company s executives to plan for retirement and for tax planning.

Employee Stock Purchase Plan

The Company offers all eligible employees the opportunity to participate in a tax-qualified Employee Stock Purchase Plan (ESPP). Through payroll deductions, employees can purchase shares of the Company s common stock at a discount from fair market value on a quarterly basis. The purchase price per share is the lower of (a) 85% of the fair market value per share on the first day of each 12-month offering period (January 1st) or (b) 85% of the fair market value per share on the purchase date (the end of each calendar quarter, March 31st, June 30th, September 30th, and December 31st). An employee is eligible to participate in the ESPP after 90 consecutive days of employment.

401(k) and Other Contributions

The Company offers a tax-qualified 401(k) plan to all employees for retirement savings. Under the plan, employees are allowed to defer and invest up to 100% of their cash earnings, subject to the maximum 401(k) contribution amount (which, in 2008, was $15,500 for those under 50 years of age and $20,500 for those 50 years of age or older). Contributions can be invested on a pre-tax basis in a diversified selection of publicly-traded mutual funds.

In order to encourage participation and to provide a retirement planning benefit to employees, the Company also provides a matching contribution of 50% of all 401(k) deferrals, provided that matching

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payments in the 401(k) plan are limited to the lesser of 4% of an employee s cash compensation and $7,750. Vesting of the 401(k) matching payments is based on the employee s tenure with the Company, and over time, an employee becomes increasingly vested in both prior and new matching payments. Employees are fully vested in all prior and all new matching payments after six years of employment.

As noted above, the Company also matches up to 50% of cash compensation deferred by participants in the executive deferred compensation plan. Total matching payments made by the Company to participants in the executive deferred compensation plan (including deferred compensation matching plus matches in the 401(k) plan) are limited to 6% of the participant s base salary.

There are no other retirement or pension plans at Redwood.

Other Benefits

In addition to cash and equity-based compensation, Redwood currently provides all employees with certain other benefits including medical, dental, vision, disability, and life insurance. The provision of these types of benefits is important in attracting and retaining employees. Redwood currently pays approximately two-thirds of an employee s monthly premium for medical and dental coverage, and 100% of an employee s premiums for long-term disability and life insurance provided through Company plans. Redwood also funds a Healthcare Reimbursement Account (HRA) for employees that choose to enroll in the PPO Savings Plus Plan. For those making this election, Redwood currently contributes to HRAs $1,500 for single employees and $2,000 for employees with families.

Severance and Change of Control Arrangements

Each of Messrs. Bull, Hughes, Nicholas, and Zagunis has entered into an employment agreement with Redwood which provides for severance payments in the event we terminate the executive s employment without cause or the executive terminates for good reason. The employment agreements also provide for payments and vesting of stock options and other equity-related awards in the event of the executive s death or disability. In the event of a change of control in which the surviving or acquiring corporation does not assume outstanding stock options and equity-related awards or substitute equivalent awards, the executive s outstanding options and equity-related awards will immediately vest and become exercisable. These agreements were entered into in order to attract and retain these executives in the competitive marketplace for executive talent.

The various levels of post-termination benefits for each of Messrs. Bull, Hughes, Nicholas, and Zagunis were determined by the Committee to be appropriate for the individual based on that person s duties and responsibilities with the Company and were the result of arms-length negotiations. The Company also determined the different levels to be appropriate and reasonable when generally compared to post-termination benefits provided by the Company s peers to executives with similar titles and similar levels of responsibility. The Company also believes that the levels of benefit also take into account the expected length of time and difficulty the individual may experience in trying to secure new employment. The amount of the severance is balanced against the Company s need to be responsible to its stockholders and also takes into account the potential impact the severance payments may have on other potential parties to a change in control transaction.

The terms of these severance and change of control arrangements are described in more detail below under Other Compensation Matters Potential Payments upon Termination or Change of Control.

The Committee reviews the terms of these agreements each year and seeks analysis from Frederic W. Cook & Co., Inc. to compare the terms of these agreements to competitive benchmarks. The Committee s use of tally sheets also enables the Committee to analyze the expected payments should any of these agreements become applicable to the termination of an executive s employment.

Tax Considerations

Section 162(m) of the Code limits the tax deductibility by Redwood of annual compensation in excess of $1,000,000 paid to our Chief Executive Officer and our three other most highly compensated executive officers employed at the end of the year other than our Chief Financial Officer. However, performance-based

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compensation that has been approved by stockholders is excluded from the $1,000,000 limit if, among other requirements, the compensation is payable only upon the attainment of pre-established, objective performance goals and the committee of the board of directors that establishes those goals consists only of outside directors. All members of the Committee qualify as outside directors.

The Committee considers the anticipated tax treatment to Redwood and to executive officers when reviewing executive compensation and our compensation programs. The deductibility of some types of compensation payments can depend upon the timing of an executive s vesting or exercise of previously granted rights or termination of employment. Interpretations of and changes in applicable tax laws and regulations, as well as other factors beyond the Committee s control, also can affect the deductibility of compensation.

While the tax impact of any compensation arrangement is one factor to be considered, that impact is evaluated in light of the Committee s overall compensation philosophy and objectives. The Committee will consider ways to maximize the deductibility of executive compensation, while retaining the discretion it deems necessary to compensate officers in a manner commensurate with performance and the competitive environment for executive talent. From time to time, the Committee may award compensation to our executive officers which is not fully tax deductible if it determines that the award is consistent with its philosophy and is in the Company s and its stockholders best interests.

Section 409A of the Code imposes significant additional taxes and interest on underpayment of taxes in the event an executive defers compensation under a plan that does not meet the requirements of Section 409A. We have generally structured our programs and individual arrangements in a manner intended to comply with the requirements of Section 409A.

Certain tax matters relating to excise taxes imposed on certain severance payments and related tax gross-ups that we may be obligated to pay to our executives are discussed below under Other Compensation Matters Potential Payments upon Termination or Change of Control.

Clawback Policy with Respect to Bonus and Incentive Compensation

The Company has adopted a clawback policy with respect to bonus and incentive payments made to executives whose fraud or misconduct resulted in a financial restatement. Pursuant to this policy, in the event of a significant restatement of the Company s financial results due to fraud or misconduct, the Board of Directors of the Company will review all bonus and incentive compensation payments made on the basis of the Company having met or exceeded specific performance targets during the period affected by the restatement. If any of the payments would have been lower if determined using the restated results, the Board of Directors will, to the extent permitted by law, seek to recoup from the executives whose fraud or misconduct materially contributed to the restatement the value or benefit of the prior payments made to the executives.

25

TABLE OF CONTENTS

Executive Compensation Tables

Summary Compensation

The following table includes information concerning compensation earned by the NEOs for the year ended December 31, 2008. Titles shown in the table are those held by the executive officer on December 31, 2008.

The cost of equity awards for NEOs is determined in accordance with SFAS 123(R) and is based upon the estimated fair value of each award on the grant date and the number of units awarded. Even though the awards generally vest evenly over a four year period, we have elected to apply an accelerated method of amortization provided by FAS 123(R). Under this method, compensation cost is recognized at approximately 57% of each award s grant-date fair value during the first year, 26% in the second year, 13% in the third year, and 4% during the fourth year.

As a consequence of this accelerated method, compensation for NEOs can differ significantly from the actual vested amounts available to them. Additionally, subsequent changes in the fair values of equity awards are not reflected in the compensation amounts reported for NEOs, as GAAP requires that grant-date fair values be used to reflect equity compensation awarded by the Company.

(1) Represents the amount of compensation cost that was recognized by Redwood in each fiscal year indicated related to grants of deferred stock units made in such fiscal year and in prior fiscal years with respect to each NEO as

determined in accordance with SFAS 123(R). The valuation assumptions used in determining such amounts are described in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the corresponding year.

(2) Represents the amount of compensation cost determined in accordance with SFAS 123(R) that was recognized by Redwood in each fiscal year indicated related to stock options granted to each NEO in 2004. The valuation assumptions used in determining such amounts are described in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ending December 31, 2004. No stock options were granted in 2008.

(3) These amounts are cash bonuses awarded and expensed under Redwood s performance-based compensation plan for each fiscal year indicated with respect to performance during such fiscal year (but paid early in the next following fiscal year). All individual and Company performance goals used were

TABLE OF CONTENTS

pre-determined by the Committee and generally designed to be objectively measurable as described above under Executive Compensation Compensation Discussion and Analysis Performance-Based Compensation.

(4) Represents the value of above-market interest credited and expensed under the executive deferred compensation plan. The interest accrual formula for deferred compensation was modified in 2007 and, therefore, interest has not accrued at above-market rates since June 30, 2007. Above-market interest is defined as any interest that is earned above 120% of long-term applicable federal rate as published by the IRS. The table does not include dividend equivalent rights earned on deferred stock units or options, as the value of the dividend equivalent rights was factored into the grant date fair value of the original deferred stock unit and option awards in accordance SFAS 123(R).

(5) Represents matching contributions to the 401(k) and the executive deferred compensation plan.

(6) The amounts shown under Stock Awards and Option Awards for Mr. Hansen include the accounting effects on compensation expense that were recognized in 2008 in accordance with SFAS 123(R) as a result of our entering into the Transition Agreement with Mr. Hansen, as described above under Executive Compensation Compensation Discussion and Analysis Determination of Compensation.

Grants of Plan-Based Awards

The following table reflects estimated possible payouts to the NEOs in 2008 under Redwood s performance-based compensation plan as well as actual equity-related grants made in 2008 under Redwood s incentive plan. Actual payouts for performance in 2008 are reflected in the Summary Compensation table above. As discussed above under Executive Compensation Compensation Discussion and Analysis Performance-Based Compensation, the annual performance-based bonus plan is weighted 75% on Adjusted ROE and 25% on achievement of pre-established individual goals. The individual component may be earned up to 100% of target. There is no cap on the amount that may be earned with respect to the Adjusted ROE component, subject to an overall maximum 2008 annual total incentive award of $5 million for each of Mr. Bull and Mr. Hansen and $2 million for each of the other NEOs. If earned awards are in excess of 300% of salary, the excess is paid in deferred stock units under the executive deferred compensation plan.

(1) Long-term equity grants to NEOs are typically made in the fourth quarter. However, with respect to 2007, long-term equity grants to NEOs were made in January 2008 rather than the fourth quarter of 2007 in order to enable the Compensation Committee to take into account in its analysis the market turmoil

TABLE OF CONTENTS

that developed in late 2007 and to take into account the transitioning of certain executive roles. In addition, with respect to 2007, certain awards to Messrs. Bull and Hansen were made as deferred balances in the Company s Executive Deferred Compensation Plan pending conversion into a grant of deferred stock units following approval of additional Incentive Plan capacity by the Company s shareholders in May 2008.

(2) Under the Company s guidelines, no Company performance-based non-equity incentive plan awards (bonus) would have been granted for fiscal 2008 if the Adjusted ROE was less than 7%. No bonus would be awarded if Company performance was below this threshold and 0% of target bonus for individual performance was earned.

(3) Represents 100% of target bonus, which would have been paid assuming a Company Adjusted ROE of 11% and assuming that the NEO earned 100% of the target bonus for individual performance. Actual amounts earned for fiscal year 2008 are included in the Summary Compensation Table above.

(4) The maximum cash that could have been awarded was 300% of the executive s annual base salary. Any bonus amounts over 300% of annual base salary would have been awarded in deferred stock units that would have been deferred for 3 years but would have vested immediately (see footnote 5 below).

(5) Represents the maximum number of deferred stock units that could have been granted in respect of 2008 under the performance-based bonus plan assuming a maximum bonus plan award ($5 million for each of Mr. Bull and Mr. Hansen and $2 million for each of the other NEOs), with the amount over three times salary paid in deferred stock units and assuming a common stock price of $14.91 per share (the closing price of the Company s common stock on the NYSE on December 31, 2008).

(6) Represents long-term annual incentive grants made in the form of deferred stock units. See Note (1) above. Grants made on January 16, 2008 had a fair market grant unit value of $31.93 per share. Grants made on May 23, 2008 had a fair market grant unit value of $32.75 per share. Grants made on December 10, 2008 had a fair market grant unit value of $13.94 per share. These awards were approved by the Compensation Committee and issued pursuant to the 2002 Redwood Trust Inc. Incentive Plan. The value of these awards is determined in accordance with SFAS 123(R). The valuation assumptions used in determining these amounts are described in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Outstanding Equity Awards at Fiscal Year-End

Redwood does not currently award stock options, although new stock options may still be issued under the reload provisions of certain stock options that were granted in prior years. With the exception of options granted under reload provisions, all outstanding stock options were granted prior to 2005. In 2003 and 2004, executives were issued ten-year non-qualified stock options with a four-year vesting schedule that pay dividend equivalent rights for up to ten years (until the earlier of option exercise or option termination). The stock options granted in December 2001 and in 2002 were ten-year options with a four-year vesting schedule that pay dividend equivalent rights for up to four years (until the earlier of option exercise or option termination). Prior to December 2001, Redwood also granted ten-year options with a four-year vesting schedule that pay dividend equivalent rights for up to ten years (until the earlier of option exercise or option termination).

From 2005 forward, equity grants to the NEOs were made solely in the form of deferred stock units. Participants in the executive deferred compensation plan specify distribution dates not earlier than four years from the date of grant. Deferred stock units outstanding receive dividend equivalent rights each time Redwood pays a common stock dividend. All equity awards represented on this table have a four year vesting schedule, under which 25% vest on January 1 following the first anniversary of the grant (with the exception of the equity awards granted in January 2008, under which 25% vest on the first January 1 following the grant), and thereafter, 6.25% vest on the first day of each subsequent quarter, except that, with respect to Mr. Hansen, in connection with his retirement the Company entered into a Transition Agreement which provided for the accelerated vesting of 101,128 of his deferred stock units on January 1, 2009.

The following table sets forth certain information regarding outstanding equity awards for each NEO as of December 31, 2008.

(1) Represents vested stock options outstanding as of December 31, 2008.

(2) Represents unvested stock options outstanding as of December 31, 2008. These options vest over four years, with 25% vesting on the first anniversary of the date of grant and 6.25% vesting on the first day of each subsequent quarter. All stock options were fully vested on January 1, 2009.

(3) The option exercise price is based on the closing price of the Company's common stock on the NYSE on the day immediately prior to grant.

(4) Represents unvested deferred stock units as of December 31, 2008. These deferred stock units vest over four years, with 25% vesting on the January 1 following the first anniversary of grant (with the exception of the equity awards granted in January 2008, 25% of which vested on January 1, 2009) and 6.25% vesting on the first day of each subsequent quarter.

(5) Assumes a common stock value of $14.91 per share (the closing price of the Company's common stock on the NYSE on December 31, 2008).

(6) As discussed above, Mr. Hansen's Transition Agreement provided for the accelerated vesting of 101,128 deferred stock units on January 1, 2009.

Options Exercised and Stock Vested

The following table sets forth information with respect to the options exercised by the NEOs during the fiscal year ended December 31, 2008. The table also shows the value of accumulated deferred stock unit awards that vested during 2008.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized upon Exercise ($)[1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[2]
George E. Bull, III	92,850	$ 134,865	43,741	$ 1,341,221
Douglas B. Hansen[3]		$	43,741	$ 1,341,221
Martin S. Hughes	-	$ -	15,425	$ 479,892
Brett D. Nicholas	14,850	$ 103,462	21,015	$ 648,780
Harold F. Zagunis	-	$ -	10,916	$ 332,891