

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

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 30, 2010

REDWOOD TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other
jurisdiction of
incorporation)

001-13759
(Commission File Number)

68-0329422
(I.R.S. Employer
Identification No.)

One Belvedere Place
Suite 300
Mill Valley, California 94941
(Address of principal executive offices and Zip Code)

(415) 389-7373
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02. Compensatory Arrangements of Certain Officers.

(e) At a meeting held on November 30, 2010, the Compensation Committee of the Board of Directors of Redwood Trust, Inc. (the “Company”) considered and approved the following compensation matters for the officers of the Company noted below. Further disclosure regarding these and other compensation matters will be included in the Compensation Discussion and Analysis section of the Company’s 2011 Annual Proxy Statement to be filed with the Securities and Exchange Commission (“SEC”) in advance of the Company’s 2011 Annual Meeting of Stockholders, which meeting is currently scheduled to take place in May 2011.

2010 Year-End Long-Term Equity Compensation Awards. In accordance with its previously disclosed policy and practice, on November 30, 2010, the Compensation Committee made 2010 year-end long-term equity compensation awards to certain officers of the Company. Two different types of equity awards were granted: deferred stock units (“DSUs”) and Performance Stock Units (“PSUs”). The terms of each of these two types of awards are summarized below.

The DSUs granted on November 30, 2010 will vest over four years, with 25% of each award vesting on January 1, 2012, and an additional 6.25% vesting on the first day of each subsequent quarter, with full vesting on January 1, 2015. The shares of Company common stock underlying these DSUs will be distributed to the recipients in shares of common stock on May 1, 2015, unless distribution is electively deferred by a recipient under the terms of the Company’s Executive Deferred Compensation Plan. The number of DSUs granted to each officer was determined based on a dollar amount for each award divided by the closing price of the Company’s common stock on the New York Stock Exchange (“NYSE”) on the trading day immediately prior to grant.

Each DSU granted on November 30, 2010 had a grant date fair value of \$13.99, which was determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made. The terms of the DSUs granted on November 30, 2010 are generally consistent with the terms of the 2009 year-end long-term equity compensation awards made to Named Executive Officers. The foregoing description of the terms of these DSUs is qualified in its entirety by reference to the Form of Deferred Stock Unit Award Agreement attached hereto as Exhibit 10.1 (which is incorporated by reference into this Item 5.02) and the 2002 Redwood Trust, Inc. Incentive Plan (which is incorporated by reference into this Item 5.02 from the Company’s Current Report on Form 8-K, Exhibit 10.1, filed on May 19, 2010). Without limiting the foregoing sentence, the terms of the DSUs include, without limitation, provisions relating to dividend equivalent rights, forfeiture, and change-in-control that are set forth in the above-referenced Form of Deferred Stock Unit Award Agreement and 2002 Redwood Trust, Inc. Incentive Plan, but which are not summarized above.

The PSUs granted on November 30, 2010 are performance-based equity awards under which the number of underlying shares of Company common stock that vest and that the recipient becomes entitled to receive at the time of vesting will generally range from 0% to 200% of the target number of PSUs granted, with the target number of PSUs granted being adjusted to reflect the value of any dividends paid on Company common stock during the vesting period (as further described below). Vesting of these PSUs will generally occur at the end of three years (on November 30, 2013) based on three-year total stockholder return (“TSR”), as follows:

- o If three-year TSR is negative, then 0% of the PSUs will vest;
- o If three-year TSR is 25%, then 100% of the PSUs will vest;
 - If three-year TSR is between 0% and 25%, then between 0% and 100% of the PSUs will vest determined based on a straight-line, mathematical interpolation between the applicable vesting percentages;
- o If three-year TSR is greater than or equal to 125%, then 200% of the PSUs will vest; and
 - If three-year TSR is between 25% and 125%, then between 100% and 200% of the PSUs will vest determined based on a straight-line, mathematical interpolation between the applicable vesting percentages.

Under the terms of the PSUs, three-year TSR is defined as the percentage by which the Per Share Price (defined below) as of November 30, 2013 has increased or decreased, as applicable, relative to the Per Share Price as of November 30, 2010 (\$14.14), adjusted to include the impact on such increase or decrease that would be realized if all cash dividends paid on a share of Company common stock during such three-year period were reinvested in Company common stock on the applicable dividend payment dates.

“Per Share Price” shall mean as of any date, the average of the closing prices of a share of Company common stock on the NYSE during the twenty (20) consecutive trading days ending on the trading day prior to such date.

Subject to vesting, the shares of Company common stock underlying these PSUs will be distributed to the recipients on May 1, 2014, unless distribution is electively deferred by a recipient under the terms of the Company’s Executive Deferred Compensation Plan. At the time of vesting, the value of any dividends paid during the vesting period will be reflected in the PSUs by increasing the target number of PSUs granted by an amount corresponding to the incremental number of shares of Company common stock that a stockholder would have acquired during the three-year TSR measurement period had all dividends during that period been reinvested in Company common stock on the applicable dividend payment dates. Between the vesting of these PSUs and the delivery of the underlying shares of Company common stock, the underlying vested award shares will have attached dividend equivalent rights, resulting in the payment of dividend equivalents each time the Company pays a common stock dividend during that period.

Each PSU granted on November 30, 2010 had a grant date fair value of \$14.01, which was determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made. The foregoing description of the terms of these PSUs is qualified in its entirety by reference to the Form of Performance Stock Unit Award Agreement attached hereto as Exhibit 10.2 (which is incorporated by reference into this Item 5.02) and the 2002 Redwood Trust, Inc. Incentive Plan (which is incorporated by reference into this Item 5.02 from the Company’s Current Report on Form 8-K, Exhibit 10.1, filed on May 19, 2010). Without limiting the foregoing sentence, the terms of the PSUs include without limitation, provisions relating to forfeiture and change-in-control that are set forth in the above-referenced Form of Performance Stock Unit Award Agreement and 2002 Redwood Trust, Inc. Incentive Plan, but which are not summarized above.

In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2010 year-end long-term equity compensation awards granted on November 30, 2010 to the following officers of the Company are set forth in the table below:

	Deferred Stock Units (“DSUs”)		Performance Stock Units (“PSUs”)	
	#	Aggregate Grant Date Fair Value ⁽¹⁾	#	Aggregate Grant Date Fair Value ⁽¹⁾
Martin S. Hughes, President & Chief Executive Officer	80,358	\$ 1,124,213	80,358	\$ 1,125,787
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	57,144	\$ 799,440	57,144	\$ 800,560
Diane L. Merdian, Chief Financial Officer	18,750	\$ 262,316	18,750	\$ 262,684
Harold F. Zagunis, Chief Risk Officer	18,750	\$ 262,316	18,750	\$ 262,684
Christopher J. Abate, Controller	9,650	\$ 135,000	–	\$ –

(1) Determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made.

The 2010 year-end long-term equity compensation awards granted on November 30, 2010 and set forth in the table above are consistent with the Compensation Committee’s prior commitment regarding performance-based equity awards, which was set forth on page 32 of the Company’s 2010 Annual Proxy Statement. That commitment provided for at least 50% of the 2010 year-end long-term equity compensation awards granted to officers who would be Named Executive Officers (“NEOs”) with respect to the 2010 annual compensation cycle to be performance-based equity awards that would vest or be delivered based on the achievement of metric-based performance targets established by the Compensation Committee at the time of grant. Mr. Abate, who was an NEO with respect to the 2009 annual compensation cycle, will not be an NEO with respect to the 2010 annual compensation cycle and, therefore, did not receive a performance-based equity award as part of his 2010 year-end long-term equity compensation award.

2011 Base Salaries. In accordance with its previously disclosed policy and practice, on November 30, 2010, the Compensation Committee made determinations regarding the 2011 base salaries of certain officers of the Company. In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2011 base salaries of the following officers of the Company are set forth in the table below, together with the percentage increase from their 2010 base salaries:

	<u>2011 Base Salary</u>	<u>% Change from 2010 Base Salary</u>
Martin S. Hughes, President & Chief Executive Officer	\$ 700,000	0%
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	\$ 500,000	0%
Diane L. Merdian, Chief Financial Officer	\$ 400,000	0%
Harold F. Zagunis, Chief Risk Officer	\$ 400,000	0%

2011 Target Annual Bonuses. In accordance with its previously disclosed policy and practice, on November 30, 2010, the Compensation Committee made determinations regarding the 2011 target annual bonuses of certain officers of the Company. As in past years, target annual bonuses for 2011 will continue to be weighted 75% on the achievement of overall Company financial performance and 25% on the achievement of pre-established individual goals. In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2011 target annual bonuses of the following officers of the Company are set forth in the table below, together with a comparison to their target annual bonuses for 2010.

	<u>2011 Target Annual Bonus (as a % of Base Salary)</u>	<u>2011 Target Annual Bonus (\$)</u>	<u>% Change from 2010 Target Annual Bonus</u>
Martin S. Hughes, President & Chief Executive Officer	165%	\$ 1,155,000	0%
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	150%	\$ 750,000	0%
Diane L. Merdian, Chief Financial Officer	100%	\$ 400,000	33%
Harold F. Zagunis, Chief Risk Officer	100%	\$ 400,000	33%

Subsequent Compensation Matter Determinations. At one or more subsequent meetings of the Compensation Committee, additional determinations regarding compensation matters for executive officers and other employees of the Company will be made. These matters will include, without limitation, determinations regarding 2010 annual Company performance bonuses, 2010 annual individual performance bonuses, and the 2011 annual company performance bonus formula. As required by SEC regulations, determinations relating to these matters will be disclosed on Form 8-K (or Form 10-K) and/or within the Company's 2011 Annual Proxy Statement.

Item 8.01. Other Events.

In connection with the Company filing with the SEC on November 4, 2010 a prospectus supplement dated November 4, 2010 relating to the Company's Direct Stock Purchase and Dividend Reinvestment Plan, the Company is filing the opinion dated November 30, 2010 of its Maryland counsel, Venable LLP, regarding the legality of the shares of common stock issued in connection therewith. The opinion is filed as Exhibit 5.1 hereto and is incorporated herein by reference and is also hereby being filed as an exhibit to, and is hereby incorporated by reference in, the Company's Registration Statement on Form S-3, File No. 333-168617.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit 5.1	Opinion of Venable LLP
Exhibit 10.1	Form of Deferred Stock Unit Award Agreement under 2002 Incentive Plan
Exhibit 10.2	Form of Performance Stock Unit Award Agreement under 2002 Incentive Plan
Exhibit 23.1	Consent of Venable LLP (contained in its opinion filed as Exhibit 5.1)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 2, 2010

REDWOOD TRUST, INC.

By: /s/ Andrew P. Stone
Andrew P. Stone
General Counsel & Secretary

Exhibit Index

<u>Exhibit No.</u>	<u>Exhibit Title</u>
5.1	Opinion of Venable LLP
10.1	Form of Deferred Stock Unit Award Agreement under 2002 Incentive Plan
10.2	Form of Performance Stock Unit Award Agreement under 2002 Incentive Plan
23.1	Consent of Venable LLP (contained in its opinion filed as Exhibit 5.1)

[LETTERHEAD OF VENABLE LLP]

November 30, 2010

Redwood Trust, Inc.
One Belvedere Place
Suite 300
Mill Valley, California 94941

Re: Registration Statement on Form S-3 (File No. 333-168617):
Direct Stock Purchase and Dividend Reinvestment Plan

Ladies and Gentlemen:

We have served as Maryland counsel to Redwood Trust, Inc., a Maryland corporation (the "Company"), in connection with certain matters of Maryland law relating to the registration by the Company of 11,579,006 shares (the "Shares") of common stock, \$0.01 par value per share, of the Company (the "Common Stock"), covered by the above-referenced Registration Statement (the "Registration Statement"), filed by the Company with the United States Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"). The Shares may be issued from time to time pursuant to the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan (the "Plan"), as described under the heading "The Plan" in the Prospectus Supplement (as defined herein).

In connection with our representation of the Company, and as a basis for the opinion hereinafter set forth, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the following documents (hereinafter collectively referred to as the "Documents"):

1. The Registration Statement and the related form of prospectus included therein;
 2. The Prospectus Supplement, dated November 4, 2010 (the "Prospectus Supplement"), relating to the Plan, filed by the Company with the Commission pursuant to Rule 424(b)(2) under the Securities Act;
 3. The charter of the Company (the "Charter"), certified as of a recent date by the State Department of Assessments and Taxation of Maryland (the "SDAT");
 4. The Amended and Restated Bylaws of the Company, as amended, certified as of the date hereof by an officer of the Company;
 5. Resolutions adopted by the Board of Directors of the Company (the "Resolutions"), relating to the authorization of the Plan and the issuance of the Shares, certified as of the date hereof by an officer of the Company;
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6. A certificate of the SDAT as to the good standing of the Company, dated as of a recent date;
7. A certificate executed by an officer of the Company, dated as of the date hereof; and
8. Such other documents and matters as we have deemed necessary or appropriate to express the opinion set forth below, subject to the assumptions, limitations and qualifications stated herein.

In expressing the opinion set forth below, we have assumed the following:

1. Each individual executing any of the Documents, whether on behalf of such individual or any other person, is legally competent to do so.
 2. Each individual executing any of the Documents on behalf of a party (other than the Company) is duly authorized to do so.
 3. Each of the parties (other than the Company) executing any of the Documents has duly and validly executed and delivered each of the Documents to which such party is a signatory, and the obligations of each party set forth in the Documents are legal, valid, binding and enforceable in accordance with all stated terms.
 4. All Documents submitted to us as originals are authentic. The form and content of all Documents submitted to us as unexecuted drafts do not differ in any respect relevant to this opinion from the form and content of such Documents as executed and delivered. All Documents submitted to us as certified or photostatic copies conform to the original documents. All signatures on all such Documents are genuine. All public records reviewed or relied upon by us or on our behalf are true and complete. All representations, warranties, statements and information contained in the Documents are true and complete. There has been no oral or written modification of or amendment to any of the Documents, and there has been no waiver of any provision of any of the Documents, by action or omission of the parties or otherwise.
 5. Upon any issuance of the Shares, the total number of shares of Common Stock issued and outstanding will not exceed the total number of shares of Common Stock that the Company is then authorized to issue under the Charter. None of the Shares will be issued in violation of the restrictions on ownership and transfer set forth in Article XI of the Charter.
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Based upon the foregoing and subject to the assumptions, limitations and qualifications stated herein, it is our opinion that:

1. The Company is a corporation duly incorporated and validly existing under and by virtue of the laws of the State of Maryland and is in good standing with the SDAT.
2. The issuance of the Shares has been duly authorized and, when and if issued and delivered against payment therefor in accordance with the Registration Statement, the Resolutions and the Plan, the Shares will be validly issued, fully paid and nonassessable.

The foregoing opinion is limited to the laws of the State of Maryland and we do not express any opinion herein concerning any other law. We express no opinion as to the applicability or effect of any federal or state securities laws, including the securities laws of the State of Maryland. To the extent that any matter as to which our opinion is expressed herein would be governed by the laws of any jurisdiction other than the State of Maryland, we do not express any opinion on such matter.

The opinion expressed herein is limited to the matters specifically set forth herein and no other opinion shall be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion if any applicable law changes after the date hereof or if we become aware of any fact that might change the opinion expressed herein after the date hereof.

This opinion is being furnished to you for submission to the Commission as an exhibit to the Company's Current Report on Form 8-K relating to the filing of the Prospectus Supplement (the "Current Report"), which is incorporated by reference in the Registration Statement. We hereby consent to the filing of this opinion as an exhibit to the Current Report and the said incorporation by reference and to the use of the name of our firm therein. In giving this consent, we do not admit that we are within the category of persons whose consent is required by Section 7 of the Securities Act.

Very truly yours,

/s/ **VENABLE LLP**

[FORM OF]
DEFERRED STOCK UNIT AWARD AGREEMENT

DEFERRED STOCK UNIT AWARD AGREEMENT dated as of the __ day of _____, 20__ (the "Award Agreement"), by and between Redwood Trust, Inc., a Maryland corporation (the "Company"), and _____, an employee of the Company (the "Participant").

Pursuant to the 2002 Redwood Trust, Inc. Incentive Stock Plan (the "Plan"), the Compensation Committee (the "Committee") has determined that the Participant is to be granted a Deferred Stock Unit award for shares of the Company's common stock, par value \$0.01 per share, on the terms and conditions set forth herein (the "Award"), and the Company hereby grants such Award. This Award is being made in connection with a deferral of compensation by the Participant pursuant to the Redwood Trust, Inc. Executive Deferred Compensation Plan (the "Deferred Compensation Plan") and the executed Deferral Election attached hereto as Exhibit A (the "Deferral Election"). Any capitalized terms not defined herein shall have the meaning set forth in the Plan or the Deferred Compensation Plan, as applicable.

1. Number of Shares Awarded; Deferral Election. This Award entitles the Participant to receive _____ shares of the Company's common stock, par value \$0.01 per share (the "Award Shares"), upon expiration of the Restricted Period described below.

2. Dividends. Notwithstanding Section 7(3)(b) of the Plan, the number of Award Shares set forth in Section 1 shall not be adjusted to reflect the payment of regular cash dividends declared on the Company's common stock during the Restricted Period. The Participant will instead be entitled to dividend equivalent payments ("DERs") with respect to the Award Shares pursuant to the Plan or the Deferred Compensation Plan and in accordance with the applicable Deferral Election.

3. Vesting and Restricted Periods. The Award shares shall vest on the following schedule:

As of _____, 20__, 25%

At the beginning of each subsequent calendar quarter, 6.25%;

All Award shares shall be fully vested as of _____, 20__.

Award Shares that have become vested are referred to as "Vested Award Shares". The period from the date of this Award to the applicable date or dates specified for delivery of such shares is referred to as the "Restricted Period".

No Award Shares shall be credited to Participant's Deferral Account until they have become Vested Award Shares. Vested Award Shares shall be delivered to the Participant at the time or times provided in the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A and the terms of the Deferred Compensation Plan). Upon termination of employment with the Company for any reason prior to expiration of the Restricted Period, any Award Shares not vested at the time of such termination shall become ineligible for crediting to Participant's Deferral Account and shall be forfeited. Vested Award Shares shall not be forfeited in the event of termination of employment but rather delivery of such shares shall continue to be governed by the terms of the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A and the terms of the Deferred Compensation Plan).

4. **At-Will Employment.** This Award Agreement is not an employment contract and nothing in this Award Agreement shall be deemed to create in any way whatsoever any obligation of the Participant to continue in the employ of the Company or on the part of the Company to continue the employment of the Participant with the Company. It is understood and agreed to by the Participant that the Award and participation in the Plan or the Deferred Compensation Plan does not alter the at-will nature of Participant's relationship with the Company (subject to the terms of any separate employment agreement Participant may have with the Company). The at-will nature of Participant's relationship with the Company can only be altered by a writing signed by both the Participant and the President of the Company.

5. **Notices.** Any notice required or permitted under this Award Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Participant either at the Participant's address set forth below or such other address as the Participant may designate in writing to the Company, and to the Company: Attention: General Counsel, at the Company's address or such other address as the Company may designate in writing to the Participant.

6. **Failure to Enforce Not a Waiver.** The failure of the Company to enforce at any time any provision of this Award Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

7. **Existing Agreements.** This Award Agreement does not supersede nor does it modify any existing agreements between the Participant and the Company.

8. **Governing Law.** This Award Agreement shall be governed by and construed according to the laws of the State of Maryland without regard to its principles of conflict of laws.

9. **Incorporation of Plan.** The Plan and the Deferred Compensation Plan are incorporated by reference and made a part of this Award Agreement, and this Award Agreement is subject to all terms and conditions of the Plan and the Deferred Compensation Plan as in effect from time to time. Notwithstanding the foregoing, this Award Agreement is intended to comply with Section 409A of the Code and this Award Agreement, the Plan and Deferred Compensation Plan shall be interpreted in a manner consistent with such intent, and any provisions of this Agreement, the Plan or the Deferred Compensation Plan that would cause the Award to fail to satisfy the requirements for an effective deferral of compensation under Section 409A of the Code shall have no force and effect.

10. Amendments. This Award Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto. Notwithstanding the foregoing, the Deferral Election shall be irrevocable and the dates specified for distribution of Vested Award Shares may not be modified after the date hereof except as otherwise permitted under Section 409A of the Code.

[Signature page follows.]

IN WITNESS WHEREOF, the parties have executed this Award Agreement on the day and year first above written.

REDWOOD TRUST, INC.

By: _____
Martin S. Hughes
President & Chief Executive Officer
One Belvedere Place, Suite 300
Mill Valley, CA 94941

The undersigned hereby accepts and agrees to all the terms and provisions of this Award Agreement and to all the terms and provisions of the Plan herein incorporated by reference.

[Insert Participant Name]
c/o Redwood Trust, Inc.
One Belvedere Place, Suite 300
Mill Valley, CA 94941

[FORM OF]
PERFORMANCE STOCK UNIT AWARD AGREEMENT

PERFORMANCE STOCK UNIT AWARD AGREEMENT dated as of the ___ day of _____ 20__ (the "Award Agreement"), by and between Redwood Trust, Inc., a Maryland corporation (the "Company"), and _____, an employee of the Company (the "Participant").

Pursuant to the 2002 Redwood Trust, Inc. Incentive Stock Plan (the "Plan"), the Compensation Committee (the "Committee") has determined that the Participant is to be granted a Performance Stock Unit award for shares of the Company's common stock, par value \$0.01 per share ("Common Stock") on the terms and conditions set forth herein (the "Award"), and the Company hereby grants such Award. This Award is being made in connection with a deferral of compensation by the Participant pursuant to the Redwood Trust, Inc. Executive Deferred Compensation Plan (the "Deferred Compensation Plan") and the executed Deferral Election attached hereto as Exhibit B (the "Deferral Election"). Any capitalized terms not defined herein shall have the meaning set forth in the Plan or the Deferred Compensation Plan, as applicable.

1. Number of Performance Stock Units Awarded. This Award Agreement sets forth the terms and conditions of a Performance Stock Unit Award with a target award of _____ shares of Common Stock, as adjusted to reflect cash dividends declared on the Common Stock pursuant to Section 2 (the "Target Shares"). The number of units representing shares of Common Stock that shall be credited to Participant's Deferral Account pursuant to this Award (the "Award Shares") shall be determined based upon the Company's achievement of the Performance Goals set forth in Exhibit A hereto and may range from zero percent (0%) to two hundred percent (200%) of the Target Shares.

2. Effect of Dividends on Target Shares. On the last day of the Performance Period, the number of Target Shares set forth in Section 1 shall automatically be increased to reflect all cash dividends, if any, which have been paid to all or substantially all holders of the outstanding shares of Common Stock during the Performance Period (as such term is defined in Exhibit A). On such date, the Target Shares shall be automatically increased by an aggregate number of shares determined by multiplying (x) the target award amount set forth in Section 1 above by (y) the Dividend Reinvestment Factor (as such term is defined below).

“Dividend Reinvestment Factor” shall mean the number of shares of Common Stock that would have been acquired from the reinvestment of cash dividends, if any, which have been paid to all or substantially all holders of the outstanding shares of Common Stock during the Performance Period, with respect to one share of Common Stock outstanding on the first day of the Performance Period. Such number of shares shall be determined cumulatively, for each cash dividend paid during the Performance Period (beginning with the first cash dividend paid during the Performance Period and continuing chronologically with each subsequent cash dividend paid during the Performance Period (and in each case other than the first such cash dividend, taking into account any increase in shares resulting from the application of this formula to the chronologically immediately preceding cash dividend)), by multiplying (i) the applicable number of shares of Common Stock immediately prior to the record date of such cash dividend (which in the case of the first cash dividend paid during the Performance Period shall be one) by (ii) the per share amount of such cash dividend and dividing the product by the Fair Market Value per share of Common Stock on the payment date of such dividend.

3. **Vesting and Payment of Award.** The Award Shares shall vest and be credited effective as of the last day of the Performance Period, if at all, when the Administrator determines, in its sole discretion, whether and to what extent the Performance Goals set forth in Exhibit A have been attained. The crediting of the Award Shares is contingent on the attainment of the Performance Goals as set forth on Exhibit A. Upon such determination by the Administrator and subject to the provisions of the Plan and this Award Agreement, the Participant shall be entitled to crediting of that portion of the Performance Stock Units as corresponds to the Performance Goals attained (as determined by the Administrator in its sole discretion) as set forth on Exhibit A.

No Award Shares shall be credited to Participant’s Deferral Account unless the Administrator determines, in its sole discretion, whether and to what extent the Performance Goals set forth in Exhibit A have been attained and the number of Award Shares earned pursuant to the Award have been determined. Any shares of Common Stock in respect of Award Shares credited to Participant’s Deferral Account shall be delivered to the Participant at the time or times provided in the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A and the terms of the Deferred Compensation Plan).

3. **Forfeiture of Performance Stock Units.** Upon termination of employment with the Company due to death or Disability or by the Company without Cause (as defined below) the Target Shares shall be reduced on a pro-rata basis to reflect the number of days of employment completed during the Performance Period, and the Award shall continue to be eligible to vest and become payable based on such prorated number of Target Shares and the Performance Goals. Upon termination of employment with the Company for any reason other than death, Disability or without Cause, prior to expiration of the Performance Period, any Award Shares not vested at the time of such termination shall become ineligible for crediting to Participant’s Deferral Account and shall be forfeited. Any Award Shares which have been credited to Participant’s Deferral Account prior to termination of employment shall not be forfeited in the event of termination of employment but rather delivery of such shares shall continue to be governed by the terms of the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A and the terms of the Deferred Compensation Plan).

For purposes of this Award Agreement, "Cause" shall mean (i) the Participant's material failure to substantially perform the reasonable and lawful duties of his or her position for the Company, which failure shall continue for thirty (30) days after notice thereof by the Company to the Participant; (ii) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of the Participant in respect of the performance of his or her duties hereunder, his or her fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of his or her duties by Participant; (iv) the Participant's conviction of a felony; (v) theft or embezzlement, or attempted theft or embezzlement, of money or tangible or intangible assets or property of the Company or its employees, customers, clients, or others having business relations with the Company; (vi) any act of moral turpitude by Participant injurious to the interest, property, operations, business or reputation of the Company; or (vii) unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to Company business.

4. **Adjustments.** The Administrator, in its discretion, may adjust or modify the methodology for calculating the achievement of the Performance Goals set forth in Exhibit A hereto as necessary or desirable to account for events affecting the value of the Common Stock which, in the discretion of the Administrator, are not considered indicative of Company performance, such as the issuance of new Common Stock, stock repurchases, stock splits, issuances and/or exercises of stock grants or stock options, and similar events, all in order to properly reflect the Company's intent with respect to the performance objectives underlying this Award or to prevent dilution or enlargement of the benefits or potential benefits intended to be made available with respect to the Award.

5. **At-Will Employment.** This Award Agreement is not an employment contract and nothing in this Award Agreement shall be deemed to create in any way whatsoever any obligation of the Participant to continue in the employ of the Company or on the part of the Company to continue the employment of the Participant with the Company. It is understood and agreed to by the Participant that the Award and participation in the Plan or the Deferred Compensation Plan does not alter the at-will nature of Participant's relationship with the Company (subject to the terms of any separate employment agreement Participant may have with the Company). The at-will nature of Participant's relationship with the Company can only be altered by a writing signed by both the Participant and the President of the Company.

6. **Notices.** Any notice required or permitted under this Award Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Participant either at the Participant's address set forth below or such other address as the Participant may designate in writing to the Company, and to the Company: Attention: General Counsel, at the Company's address or such other address as the Company may designate in writing to the Participant.

7. **Failure to Enforce Not a Waiver.** The failure of the Company to enforce at any time any provision of this Award Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

8. **Existing Agreements.** This Award Agreement does not supersede nor does it modify any existing agreements between the Participant and the Company.

9. **Governing Law.** This Award Agreement shall be governed by and construed according to the laws of the State of Maryland without regard to its principles of conflict of laws.

10. **Incorporation of Plan.** The Plan and the Deferred Compensation Plan are incorporated by reference and made a part of this Award Agreement, and this Award Agreement is subject to all terms and conditions of the Plan and the Deferred Compensation Plan as in effect from time to time. Notwithstanding the foregoing, this Award Agreement is intended to comply with Section 409A of the Code and this Award Agreement, the Plan and Deferred Compensation Plan shall be interpreted in a manner consistent with such intent, and any provisions of this Agreement, the Plan or the Deferred Compensation Plan that would cause the Award to fail to satisfy the requirements for an effective deferral of compensation under Section 409A of the Code shall have no force and effect.

11. **Amendments.** This Award Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto. Notwithstanding the foregoing, the Deferral Election shall be irrevocable and the dates specified for distribution of Vested Award Shares may not be modified after the date hereof except as otherwise permitted under Section 409A of the Code.

[Signature page follows.]

IN WITNESS WHEREOF, the parties have executed this Award Agreement on the day and year first above written.

REDWOOD TRUST, INC.

By: _____
Martin S. Hughes
President & Chief Executive Officer
One Belvedere Place, Suite 300
Mill Valley, CA 94941

The undersigned hereby accepts and agrees to all the terms and provisions of this Award Agreement and to all the terms and provisions of the Plan herein incorporated by reference.

[Insert Participant Name]
c/o Redwood Trust, Inc.
One Belvedere Place, Suite 300
Mill Valley, CA 94941

Exhibit A
Performance Goals

Performance Period: The performance period begins [*insert grant date*] and ends on [*insert 3rd anniversary of grant date*] (the “Performance Period”).

Performance Goals: The number of Award Shares which will vest and be credited to the Participant’s Deferral Account at the end of the Performance Period shall be determined based upon the Company’s cumulative total shareholder return (“TSR”) for the performance period in accordance with the following schedule:

TSR	% of Target Shares Credited to Deferral Account
Less than 0%	0%
25%	100%
125% or greater	200%

If the actual performance results fall between 0% and 25% TSR, or between 25% and 125% TSR, the actual number of Award Shares which shall vest and be credited to the Participant’s Deferral Account determined based on a straight-line, mathematical interpolation between the applicable vesting percentages. In no event shall the number of Award Shares exceed 200% of the Target Shares. In the event the TSR is equal to or less than 0% at the end of the Performance Period, all Award Shares shall become ineligible for crediting to Participant’s Deferral Account and shall be forfeited.

Cumulative Total Shareholder Return: TSR shall mean, with respect to a share of Common Stock outstanding on the first day of the Performance Period, the percentage by which:

(A) the sum of:

(x) the Per Share Price as of the Valuation Date, plus

(y) the Per Share Price as of the Valuation Date multiplied by the Dividend Reinvestment Factor,

exceeds,

(B) \$[]¹.

Notwithstanding the foregoing, the Administrator shall make appropriate adjustments in calculating TSR to reflect any dividends which may be declared during the twenty (20) consecutive trading days prior to the end of the Performance Period, as determined by the Administrator in its sole discretion.

¹ The average of the closing prices of the Company’s Common Stock during the twenty (20) consecutive trading days ending on the day prior to the first day of the Performance Period.

“Per Share Price” shall mean the average of the closing prices of the Company’s Common Stock during the twenty (20) consecutive trading days ending on the day prior to the applicable Valuation Date; *provided, however*, that for purposes of calculating the Per Share Price in the event of a Change in Control the Per Share Price shall be the price per share of Common Stock paid in connection with such Change in Control.

“Valuation Date” means with respect to the Performance Period, *[insert last day of Performance Period]*; *provided, however*, that in the event of a Change in Control that occurs prior to *[insert last day of Performance Period]*, the Valuation Date shall mean the date of the Change in Control.

“Change in Control” shall have the same meaning as defined in the Deferred Compensation Plan.