
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): December 8, 2011

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 December 7, 2011, 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 2012 Annual Proxy Statement to be filed with the Securities and Exchange Commission (“SEC”) in advance of the Company’s 2012 Annual Meeting of Stockholders, which meeting is currently scheduled to take place in May 2012.

2011 Year-End Long-Term Equity Compensation Awards. In accordance with its previously disclosed policy and practice, on December 7, 2011, the Compensation Committee made 2011 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 December 7, 2011 will vest over four years, with 25% of each award vesting on January 1, 2013, and an additional 6.25% vesting on the first day of each subsequent quarter, with full vesting on January 1, 2016. Shares of Company common stock underlying these DSUs will be distributed to the recipients in shares of common stock on May 1, 2016, 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 December 7, 2011 had a grant date fair value of \$10.53, 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 December 7, 2011 are generally consistent with the terms of the 2010 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, the terms of the DSUs include, without limitation, provisions relating to dividend equivalent rights, forfeiture, mandatory net settlement for income tax withholding purposes, 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 December 7, 2011 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 December 6, 2014) 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;
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- 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 December 6, 2014 has increased or decreased, as applicable, relative to the Per Share Price as of December 7, 2011 (\$10.30), 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, shares of Company common stock underlying these PSUs will be distributed to the recipients on May 1, 2015, 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 December 7, 2011 had a grant date fair value of \$9.83, 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, the terms of the PSUs include without limitation, provisions relating to forfeiture, mandatory net settlement for income tax withholding purposes, 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.

The 2011 year-end long-term equity compensation awards granted on December 7, 2011 and set forth in the table below are consistent with the Compensation Committee’s prior commitment regarding performance-based equity awards granted in 2010. 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.

In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2011 year-end long-term equity compensation awards granted on December 7, 2011 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	108,055	\$ 1,137,819	108,055	\$ 1,062,181
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	77,358	\$ 814,575	77,358	\$ 760,425
Diane L. Merdian, Chief Financial Officer	27,014	\$ 284,455	27,014	\$ 265,545
John H. Isbrandtsen, Managing Director	29,470	\$ 310,314	29,470	\$ 289,686
Fred J. Matera, Managing Director	29,470	\$ 310,314	29,470	\$ 289,686

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

2012 Base Salaries. In accordance with its previously disclosed policy and practice, on December 7, 2011, the Compensation Committee made determinations regarding the 2012 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 2011 base salaries:

	<u>2012 Base Salary</u>	<u>% Change from 2011 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%
John H. Isbrandtsen, Managing Director	\$ 400,000	0%
Fred J. Matera, Managing Director	\$ 400,000	0%

2012 Target Annual Bonuses. In accordance with its previously disclosed policy and practice, on December 7, 2011, the Compensation Committee made determinations regarding the 2012 target annual bonuses of certain officers of the Company. As in past years, target annual bonuses for 2012 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 2012 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 2011.

	<u>2012 Target Annual Bonus (as a % of Base Salary)</u>	<u>2012 Target Annual Bonus (\$)</u>	<u>% Change from 2011 Target Annual Bonus</u>
Martin S. Hughes, President & Chief Executive Officer	175%	\$ 1,225,000	6.1%
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	160%	\$ 800,000	6.7%
Diane L. Merdian, Chief Financial Officer	100%	\$ 400,000	0.0%
John H. Isbrandtsen, Managing Director	100%	\$ 400,000	0.0%
Fred J. Matera, Managing Director	100%	\$ 400,000	0.0%

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 2011 annual Company performance bonuses, 2011 annual individual performance bonuses, and the 2012 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 2012 Annual Proxy Statement.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

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 10.3	Form of Restricted Stock Award Agreement under 2002 Incentive Plan

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 8, 2011

REDWOOD TRUST, INC.

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

Exhibit Index

<u>Exhibit No.</u>	<u>Exhibit Title</u>
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
10.3	Form of Restricted Stock Award Agreement under 2002 Incentive Plan

[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/director] 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.

(a) 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".

(b) 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. 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). [In connection with the delivery of Vested Award Shares to Participant, Participant and the Company agree that delivery of such Vested Award Shares shall be net of a number of such shares which shall be forfeited by Participant in order to satisfy the applicable tax withholding obligation relating to such delivery to Participant.]

(c) Upon termination of employment with the Company for any reason other than death or Disability 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. Upon termination of employment with the Company due to death or Disability prior to the expiration of the Restricted Period, any Award Shares not vested at the time of such termination shall immediately vest and be credited to the Participant's Deferral Account and shall not be forfeited.

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[]; provided that, all award agreements previously executed by the Company and the Participant which relate to Deferred Stock Unit awards shall be hereby amended to incorporate therein the provisions of Section 3(c) of this Award Agreement that relate to death and Disability].

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). [In connection with the delivery of Award Shares to Participant, Participant and the Company agree that delivery of such Award Shares shall be net of a number of such shares which shall be forfeited by Participant in order to satisfy the applicable tax withholding obligation relating to such delivery to Participant.]

3. Forfeiture of Performance Stock Units.

(a) Upon termination of employment by the Company without Cause (as defined below) prior to expiration of the Performance Period, 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.

(b) Upon termination of employment with the Company due to death or Disability prior to expiration of the Performance Period, the Target Shares shall not be reduced and the Award shall continue to be eligible to vest and become payable based on the number of Target Shares and the Performance Goals.

(c) 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.

(d) 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. [Notwithstanding the foregoing, (i) all award agreements previously executed by the Company and the Participant which relate to Performance Stock Unit awards shall be hereby amended to replace Section 3 thereof with Section 3 hereof and (ii) if Participant is a party to an employment agreement with the Company that includes provisions relating to the treatment of equity awards upon death, disability, or termination without cause, the terms of this Award Agreement shall supersede the terms of such employment agreement solely with respect to the treatment of the Performance Stock Unit award granted hereby upon termination of the Participant's employment with the Company due to death or disability or upon termination of employment by the Company without cause.]

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.

**[FORM OF]
RESTRICTED STOCK AWARD AGREEMENT**

RESTRICTED STOCK AWARD AGREEMENT dated as of the __ day of _____ 20__ (this "Agreement"), by and between Redwood Trust, Inc., a Maryland corporation (the "Corporation"), and _____, an employee of the Company (the "Purchaser").

Pursuant to the 2002 Redwood Trust, Inc. Incentive Plan, as amended (the "Plan"), the Corporation's Compensation Committee (the "Committee") has authorized a grant of a Restricted Stock award to purchase shares of the Corporation's common stock, on the terms and conditions set forth herein, and the Corporation hereby grants such award. Any capitalized terms not defined herein shall have the meaning set forth in the Plan.

In consideration of the mutual covenants and representations set forth herein, the Corporation and Purchaser agree as follows:

1. **Purchase and Sale of Stock.** Subject to the terms and conditions of this Agreement, the Corporation hereby agrees to sell to Purchaser and Purchaser agrees to purchase from the Corporation on the Closing Date (as herein defined) [] ([]) shares of the Corporation's Common Stock (the "Stock") at a price of One Cent (\$0.01) per share, for an aggregate purchase price of [] Dollars and [] Cents (\$[]). The purchase price for the Stock shall be paid in cash.

2. **Closing.** The purchase and sale of the Stock shall occur at a Closing to be held at such time and place (the "Closing Date"), as designated by the Corporation by written notice to the Purchaser of at least one (1) business day prior to the Closing Date. The Closing will take place at the principal office of the Corporation or at such other place as shall be designated by the Corporation. At the Closing, Purchaser shall deliver to the Corporation a check payable to the order of the Corporation in the aggregate amount of the purchase price of the Stock, and the Corporation will issue, as promptly thereafter as practicable, a certificate representing the Stock registered in the name of the Purchaser.

3. **Purchase Option.**

(a) All of the Stock shall be subject to the right and option of the Corporation to repurchase the Stock (the "Purchase Option") as set forth in this Section 3. In the event Purchaser shall cease to be employed by the Corporation (including a parent or subsidiary of the Corporation) for any reason other than death or Disability (the "Termination"), the Purchase Option shall come into effect. Following a Termination for any reason other than death or Disability, the Corporation shall have the right, as provided in subparagraph (b) hereof, to purchase from the Purchaser or his or her personal representative, as the case may be, at the purchase price per share originally paid as set forth in Section 1 hereof (the "Option Price"), a portion of the Stock computed as follows:

If the Termination Occurs:	Percentage of Stock Subject to Purchase Option
Prior to January 1, 20[]	100.00
Between January 1, 20[] and January 1, 20[]	75.00
Between January 1, 20[] and January 1, 20[]	50.00
Between January 1, 20[] and January 1, 20[]	25.00

(b) Within 90 days following a Termination for any reason other than death or Disability, the Corporation shall notify Purchaser by written notice delivered or mailed as provided in subparagraph 10(c), as to whether it wishes to purchase the Stock pursuant to exercise of the Purchase Option. If the Corporation (or its assignee) elects to purchase the Stock hereunder, it shall set a date for the closing of the transaction at a place and time specified by the Corporation, or, at the Corporation's option, such closing may be consummated by mail as provided in Section 10(c) hereof. At such closing, the Corporation (or its assignee) shall tender payment for the Stock and the shares of Stock so purchased shall be returned to the status of authorized but unissued shares. The Option Price shall be payable in cash or by check.

4. Arrangement Regarding Payment of Withholding Tax. Section 11(3) of the Plan requires that recipients of awards under the Plan make arrangements satisfactory to the Committee regarding payment of federal, state or local taxes of any kind required by law or to be withheld with respect to awards. The Purchaser hereby agrees with the Committee and the Corporation with respect to any withholding taxes required to be paid upon the lapse of the Purchase Option under the Agreement as follows:

(i) unless the Purchaser otherwise directs the Corporation in writing at least five (5) business days prior to the date of any lapse of the Purchase Option with respect to shares of the Stock, payment of all withholding taxes for each lapse of the Purchase Option shall be made by the assignment by the Purchaser to the Corporation of such number of shares of Stock as to which the Purchase Option is lapsing sufficient in value to fully cover the tax payment due, with the shares being valued for such purpose at the closing price on the last trading day prior to the date of the lapse and any fractional share value in excess of the tax payment due to be paid in cash to the Purchaser; or

(ii) to the extent otherwise directed by the Purchaser, payment of withholding taxes may be made through deduction from salary or other payments due to the Purchaser or through such other method as may be requested by the Purchaser and acceptable to the Committee.

The Purchaser hereby authorizes and directs the Secretary or Transfer Agent of the Corporation to transfer on the stock ledger of the Corporation the shares of Stock which are to be applied to the payment of taxes from the Purchaser to the Corporation.

5. Stock Splits, etc. If, from time to time during the term of this Agreement:

(i) There is any stock dividend or liquidating dividend of cash and/or property, stock split or other change in the character or amount of any of the outstanding securities of the Corporation; or

(ii) There is any consolidation, merger or sale of all, or substantially all, of the assets of the Corporation;

then, in such event, any and all new, substituted or additional securities or other property to which Purchaser is entitled by reason of his ownership of Stock shall be immediately subject to this Agreement and be included in the word "Stock" for all purposes with the same force and effect as the shares of Stock presently subject to the Purchase Option, right of first refusal and other terms of this Agreement. While the aggregate Option Price shall remain the same after each such event, the Option Price per share of Stock upon execution of the Purchase Option shall be appropriately adjusted.

6. Restriction on Transfer. Purchaser shall not sell, transfer, pledge, hypothecate or otherwise dispose of any shares of the Stock which remain subject to the Purchase Option.

The Corporation shall not be required (i) to transfer on its books any shares of Stock which shall have been sold or transferred in violation of any of the provisions set forth in this Agreement, or (ii) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares shall have been so transferred.

For a period of 90 days following the date any shares of the Stock cease to be subject to the Purchase Option, upon the request of the Purchaser or the Purchaser's personal representative, the Corporation will purchase all or such portion of such shares as is requested, at the Fair Market Value thereof on the date such request is received by the Corporation.

7. Legend. All certificates representing any of the shares of Stock subject to the provisions of this Agreement shall have endorsed thereon the following legend:

“THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE 2002 REDWOOD TRUST, INC. INCENTIVE PLAN AND A RESTRICTED STOCK AWARD AGREEMENT OR PERFORMANCE SHARE AWARD AGREEMENT ENTERED INTO AND BETWEEN THE REGISTERED OWNER AND REDWOOD TRUST, INC. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE IN THE OFFICES OF REDWOOD TRUST, INC.”

8. Purchaser's Representations. In connection with the Purchaser's purchase of the Stock, the Purchaser hereby represents and warrants to the Corporation as follows:

(a) Investment Intent; Capacity to Protect Interests. The Purchaser is purchasing the Stock solely for Purchaser's own account for investment and not with a view to or for sale in connection with any distribution of the Stock or any portion thereof and not with any present intention of selling, offering to sell or otherwise disposing of or distributing the Stock or any portion thereof in any transaction other than a transaction exempt from registration under the Act. The Purchaser also represents that the entire legal and beneficial interest of the Stock is being purchased, and will be held, for the Purchaser's account only, and neither in whole nor in part for any other person. Purchaser either has a preexisting business or personal relationship with the Corporation or any of its officers, directors or controlling persons or by reason of Purchaser's business or financial experience or the business or financial experience of Purchaser's professional advisors who are unaffiliated with and who are not compensated by the Corporation or any affiliate or selling agent of the Corporation, directly or indirectly, could be reasonably assumed to have the capacity to evaluate the merits and risks of an investment in the Corporation and to protect Purchaser's own interests in connection with this transaction.

(b) Residence. The Purchaser's principal residence is located at the address indicated beneath the Purchaser's signature below.

(c) Limitations on Disposition. Without in any way limiting Purchaser's representations set forth above, the Purchaser further agrees that he or she shall in no event make any disposition of all or any portion of the Stock unless and until:

(i) The shares of Stock proposed to be transferred are no longer subject to the Purchase Option set forth in Section 3; and

(ii) If Purchaser is an affiliate of the Corporation, the disposition is made pursuant to an effective registration statement or pursuant to Rule 144 or is otherwise exempt from registration requirements in the opinion of counsel acceptable to the Corporation.

(d) Section 83(b) Election. The Purchaser understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), taxes as ordinary income the difference between the amount paid for the Stock and the fair market value of the Stock as of the date any restrictions on the Stock lapse. In this context, "restriction" means the right of the Company to buy back the stock pursuant to the Purchase Option. In the event the Company has registered its securities under the Exchange Act, "restriction" with respect to officers, directors and 10% shareholders also means the six-month period after the Closing during which such officers, directors and 10% shareholders are subject to suit under Section 16(b) of the Exchange Act. The Purchaser understands that if such provision is applicable to him he may elect to be taxed at the time the Stock is purchased rather than when and as the Purchase Option or six-month Section 16(b) period expires by filing an election under Section 83(b) of the Code with the I.R.S. within thirty (30) days from the date of purchase. Even if the fair market value of the Stock equals the amount paid for the Stock, the election must be made to avoid adverse tax consequences in the future. The form for making this election is attached as Exhibit A hereto. The Purchaser understands that failure to make this filing timely will result in the recognition of ordinary income by the Purchaser, as the Purchase Option lapses, or after the lapse of the six month Section 16(b) period, on the difference between the purchase price and the fair market value of the Stock at the time such restrictions lapse. The Purchaser further understands that the income tax laws of the State of California contain provisions similar to Section 83.

THE PURCHASER ACKNOWLEDGES THAT IT IS THE PURCHASER'S SOLE RESPONSIBILITY AND NOT THE CORPORATION'S TO FILE TIMELY THE ELECTION UNDER INTERNAL REVENUE CODE SECTION 83(b) AND UNDER ANY CORRESPONDING PROVISIONS OF STATE TAX LAW, EVEN IF THE PURCHASER REQUESTS THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE PURCHASER'S BEHALF.

9. Escrow. As security for the faithful performance of the terms of this Agreement and to ensure the availability for delivery of the Purchaser's Stock upon exercise of the Purchase Option herein provided for, the Purchaser agrees to deposit with the Secretary of the Corporation, or such other person designated by the Corporation, as escrow agent in this transaction (the "Escrow Agent"), the Stock, to be held by the Escrow Agent and delivered by said Escrow Agent pursuant to the Joint Escrow Instructions of the Corporation and the Purchaser set forth in Exhibit B attached hereto and incorporated by this reference, which instructions shall also be delivered to the Escrow Agent at the closing hereunder.

10. Miscellaneous.

(a) Subject to the provisions and limitations hereof, Purchaser shall have, during the term of this Agreement, exercise all rights and privileges of a stockholder of the Corporation with respect to the Stock deposited in said escrow.

(b) The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

(c) Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to Purchaser at his address shown on the Corporation's employment records and to the Corporation at the address of its principal corporate offices (attention: Secretary) or at such other address as such party may designate by ten days' advance written notice to the other party hereto.

(d) The Corporation may assign its rights and delegate its duties under this Agreement, including paragraphs 3 and 6 hereof. If any such assignment or delegation requires consent of any state securities authorities, the parties agree to cooperate in requesting such consent. This Agreement shall inure to the benefit of the successors and assigns of the Corporation and, subject to the restrictions on transfer herein set forth, be binding upon Purchaser, his or her heirs, executors, administrators, successors and assigns.

(e) Purchaser hereby authorizes and directs the Secretary or Transfer Agent of the Corporation to transfer the Stock as to which the Purchase Option has been exercised from Purchaser to the Corporation.

(f) Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Corporation, or a parent or subsidiary of the Corporation, to terminate Purchaser's employment, for any reason, with or without cause.

(g) The failure of the Corporation to enforce at any time any provision on this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

(h) This 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.

(i) The Plan is hereby incorporated by reference and made a part hereof, and this Agreement is subject to all terms and conditions of the Plan.

(j) This Agreement does not supersede nor does it modify any existing agreements between the Purchaser and the Corporation; provided that, all award agreements previously executed by the Corporation and the Purchaser which relate to Deferred Stock Unit awards shall be hereby amended to incorporate therein the provisions of Sections 3(a) and 3(b) of this Agreement that relate to death and Disability].

(k) This Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto.

IN WITNESS WHEREOF, the parties have executed this 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 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

**ELECTION UNDER SECTION 83(b)
OF THE INTERNAL REVENUE CODE**

1. The name, address and taxpayer identification number of the taxpayer is as follows:

Name

Street Address

City, State, Zip

[Social Security No.]

2. This election under Section 83(b) of the Internal Revenue Code is being made with respect to the taxpayer's [] Shares of Common Stock (the "Property") in Redwood Trust, Inc. (the "Company").

3. The Property was received by the taxpayer on _____, _____. The election is being made with respect to the _____ tax year.

4. The Property is subject to a substantial risk of forfeiture due to death, permanent or temporary disability, involuntary termination with or without cause or voluntary termination from the Company.

5. The fair market value of the Property was \$_____.

6. The amount paid for the Property was \$_____, which amount is equal to the fair market value of \$_____.

7. Copies of this statement have been provided to the Company and the Internal Revenue Service, and shall be attached to the taxpayer's income tax return for the tax year.

Name:

Date:

EXHIBIT B

JOINT ESCROW INSTRUCTIONS

[insert date]

Andrew P. Stone, Secretary/o Redwood Trust, Inc.
One Belvedere Place
Suite 300
Mill Valley, CA 94941

Dear Sir:

As Escrow Agent for the undersigned parties, Redwood Trust, Inc., a Maryland corporation (the "Corporation"), and _____ ("Purchaser"), you are hereby authorized and directed to hold the Stock deposited with you pursuant to the terms of that certain Restricted Stock Award Agreement (the "Agreement") between the Corporation and the Purchaser, to which a copy of these Joint Escrow Instructions is attached as Exhibit B, in accordance with the following instructions (capitalized terms used herein shall have the meanings set forth in the Agreement):

1. In the event the Corporation and/or any assignee of the Corporation (referred to collectively for convenience herein as the "Corporation") exercises the Purchase Option set forth in the Agreement, the Corporation shall give to the Purchaser and you a written notice specifying the number of shares of Stock to be purchased, the purchase price, and the time for a closing hereunder at the principal office of the Corporation. The Purchaser and the Corporation hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed to transfer to the Corporation the number of shares being purchased against the simultaneous delivery to you of the purchase price (by check) for such shares pursuant to the exercise of the Purchase Option.

3. The Purchaser irrevocably authorizes the Corporation to deposit with you the shares of Stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. The Purchaser does hereby irrevocably constitute and appoint you as his attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated. Subject to the provisions of this paragraph 3, the Purchaser shall have all rights and privileges of a shareholder of the Corporation while the Stock is held by you.

4. Upon written request of the Purchaser or the Purchaser's personal representative, the Corporation will confirm to you in writing the number of shares of Stock that are no longer subject to the Purchase Option. Promptly after your receipt of such confirmation, you will deliver to the Purchaser or the Purchaser's personal representative such number of shares of Stock as are not then subject to the Purchase Option and have not been previously delivered to the Purchaser or the Purchaser's personal representative. Such shares will be free of legends.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to the Purchaser, you shall deliver all of same to the Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for the Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith. The Corporation shall indemnify and hold the Escrow Agent harmless against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, attorney fees or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against it or them hereunder and under the Agreement, except for any of the foregoing incurred in connection with, or arising out of, the Escrow Agent's willful misfeasance, bad faith or negligence in the performance of its duties hereunder or by reason of its reckless disregard for its obligations and duties hereunder.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and you are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for relinquishing of any rights under the Statute of Limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, and you may rely upon the advice of such counsel. Such counsel's reasonable compensation shall be paid by the Corporation.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be Secretary of the Corporation or if you shall resign by written notice to each party. In the event of any such termination, the Corporation shall appoint a successor Escrow Agent.

13. You are authorized to employ as agents banks, brokerage firms or other financial institutions to hold in safekeeping any certificates, instruments or other documents delivered to you hereunder and to perform other services such as sale of securities, recordkeeping and other administrative services as you may deem appropriate. Any or all of the shares of Stock being deposited with you may be held in book entry form at the Corporation's custodian, properly marked to indicate your interest therein. All fees and expenses of such agents shall be paid by the Corporation. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses, or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

CORPORATION:

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

PURCHASER:

Purchaser
[insert name]
One Belvedere Place, Suite 300
Mill Valley, CA 94941

ESCROW AGENT:

Andrew P. Stone
c/o Redwood Trust, Inc.
One Belvedere Place, Suite 300
Mill Valley, CA 94941

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.
17. Your duties under these Joint Escrow Instructions shall terminate upon the earlier of the exercise of the Purchase Option by the Corporation or the expiration of the Purchase Option as to all shares of Stock covered thereby and the delivery of the certificates evidencing the Stock to the party entitled thereto.
18. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

Very truly yours,

REDWOOD TRUST, INC.

By: _____

Title: _____

PURCHASER:

Name:

ESCROW AGENT:

Andrew P. Stone
Secretary