REDWOOD TRUST INC
Form DEF 14A
April 03, 2012

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

SCHEDULE 14A
(RULE 14a-101)

SCHEDULE 14A INFORMATION

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

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

Check the appropriate box:

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

REDWOOD TRUST, INC.

(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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

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

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(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Redwood Trust, Inc.:

You are cordially invited to attend the Annual Meeting of Stockholders of Redwood Trust, Inc., a Maryland corporation, to be held on May 17, 2012 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, for the following purposes:

1. To elect George E. Bull, III and Georganne C. Proctor as Class III directors to serve until the Annual Meeting of Stockholders in 2015 and until their successors are duly elected and qualify;
2. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2012;
3. To vote on an advisory resolution to approve named executive officer compensation;
4. To vote on an amendment to our charter to increase the number of shares authorized for issuance;
5. To vote on an amendment to our 2002 Incentive Plan;
6. To vote on an amendment to our 2002 Employee Stock Purchase Plan;
7. To vote on an amendment to our charter to eliminate the classification of our Board of Directors;
8. To vote on an amendment to our Bylaws to adopt a majority voting provision for uncontested director elections; and
9. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

A Proxy Statement describing the matters to be considered at the Annual Meeting is attached to this notice. Our Board of Directors has fixed the close of business on March 30, 2012 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement of the Annual Meeting.

We would like your shares to be represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we respectfully request that you mark, date, sign, and promptly mail the enclosed proxy card in the accompanying postage-paid envelope or, pursuant to instructions on the enclosed proxy card, authorize a proxy to cast your votes by telephone or through the Internet.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to Be Held on May 17, 2012:

our Proxy Statement can be directly accessed through our website at: *http://www.redwoodtrust.com/Proxy* our Annual Report on Form 10-K for the year ended December 31, 2011 is available within the Investor Information section of our website at: *http://www.redwoodtrust.com*

By Order of the Board of Directors,
/s/ Andrew P. Stone
Secretary

April 3, 2012

YOUR VOTE IS IMPORTANT.

PLEASE PROMPTLY MARK, DATE, SIGN, AND RETURN YOUR PROXY CARD IN THE ENCLOSED ENVELOPE OR, PURSUANT TO INSTRUCTIONS ON YOUR PROXY CARD, AUTHORIZE A PROXY TO CAST YOUR VOTES BY TELEPHONE OR THROUGH THE INTERNET.

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

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 17, 2012

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Redwood Trust, Inc., a Maryland corporation (Redwood, we, or us), for exercise at the Annual Meeting of Stockholders (the Annual Meeting) to be held on Thursday, May 17, 2012 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, and at any adjournment or postponement thereof. This Proxy Statement, the accompanying proxy card, and the Notice of Annual Meeting are being mailed to stockholders of record as of the record date for the Annual Meeting beginning on or about April 11, 2012.

Redwood, together with its subsidiaries, is a financial institution that seeks to invest in real estate related assets that have the potential to provide attractive cash flows over a long period of time and support our goal of distributing attractive levels of dividends to our stockholders. For tax purposes, we are structured as a real estate investment trust, or REIT. We are able to pass through substantially all of our earnings generated at our REIT to our stockholders without paying income tax at the corporate level. We pay income tax on the REIT taxable income we retain and on the income we earn at our taxable subsidiaries. Redwood was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941.

The address and telephone number of our principal executive office are as set forth above and our website is *www.redwoodtrust.com.* Information on our website is not a part of this Proxy Statement.

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INFORMATION ABOUT THE ANNUAL MEETING

Who May Attend the Annual Meeting

Only stockholders who own our common stock as of the close of business on March 30, 2012, the record date for the Annual Meeting, will be entitled to attend the Annual Meeting. In the discretion of management, we may permit certain other individuals to attend the Annual Meeting, including members of the media and our employees.

Who May Vote

Each share of our common stock outstanding on the record date for the Annual Meeting entitles the holder thereof to one vote. The record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting is the close of business on March 30, 2012. As of the record date, there were 78,756,319 shares of common stock issued and outstanding. You can vote in person at the Annual Meeting or by proxy. To vote by authorizing a proxy to cast your votes, please mark, date, sign, and mail the enclosed proxy card. You may also authorize a proxy to vote your shares by telephone or through the Internet as instructed on the proxy card.

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

Voting by Proxy; Board of Directors Voting Recommendations

If you vote by proxy, the individuals named on the proxy, or their substitutes, will cast your votes in the manner you indicate. If you date, sign, and return the proxy card without marking your voting instructions, your votes will be cast in accordance with the recommendations of Redwood s Board of Directors, as follows:

For the election of each of the two Class III nominees to serve as directors until the Annual Meeting of Stockholders in 2015 and until their successors are duly elected and qualify;
For the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2012;
For the approval, on an advisory basis, of the resolution approving the compensation of our named executive officers;
For the approval of the amendment to our charter to increase the number of shares authorized for issuance;
For the approval of the amendment to our 2002 Incentive Plan;
For the approval of the amendment to our 2002 Employee Stock Purchase Plan;
For the approval of the amendment to our charter to eliminate the classification of our Board of Directors;
To abstain from the vote on the amendment to our Bylaws to adopt a majority voting provision for uncontested director elections; and
In the discretion of the proxy holder on any other matter that properly comes before the Annual Meeting.

You may revoke or change your proxy at any time before it is exercised by delivering to us a signed proxy with a date later than your previously delivered proxy, by submitting a new proxy by telephone or through the Internet, by voting in person at the Annual Meeting, or by sending a written revocation of your proxy addressed to Redwood s Secretary at our principal executive office.

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Quorum Requirement

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

Other Matters

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

Information About the Proxy Statement and the Solicitation of Proxies

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

Annual Report

Our 2011 Annual Report, consisting of our Annual Report on Form 10-K for the year ended December 31, 2011, is being mailed to stockholders together with this Proxy Statement and contains financial and other information about Redwood, including audited financial statements for our fiscal year ended December 31, 2011. Certain sections of our 2011 Annual Report are incorporated into this Proxy Statement by reference, as described in more detail under Information Incorporated by Reference below. Our 2011 Annual Report is also available on our website.

Householding

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

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

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

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

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

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CORPORATE GOVERNANCE

Corporate Governance Standards

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

Process for Nominating Potential Director Candidates

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

Stockholders Nominees. Our Bylaws permit stockholders to nominate a candidate for election as a director at an annual meeting of the stockholders subject to compliance with certain notice and informational requirements, as more fully described below in this Proxy Statement under Stockholder Proposals for the 2013 Annual Meeting. A copy of the full text of our Bylaws may be obtained by any stockholder upon written request addressed to Redwood s Secretary at our principal executive office. Among other matters required under our Bylaws, any stockholder nominations should include the nominee s name and qualifications for Board membership and should be addressed to Redwood s Secretary at our principal executive office.

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

Director Qualifications. Our Governance Standards contain Board membership criteria that apply to nominees for our Board of Directors. Each member of our Board of Directors must exhibit high standards of integrity, commitment, and independence of thought and judgment, and must be committed to promoting the best interests of Redwood. In addition, each director must devote the time and effort necessary to be a responsible and productive member of our Board of Directors. This includes developing knowledge about Redwood s business operations and doing the work necessary to participate actively and effectively in Board and committee meetings.

Our Governance Standards also contain criteria that are intended to guide our Governance and Nominating Committee s considerations of diversity in identifying nominees for our Board of Directors. In particular, our Governance Standards provide that the members of our Board of Directors should collectively possess a broad range of talent, skill, expertise, and experience useful to effective oversight of our business and affairs and sufficient to provide sound and prudent guidance with respect to our operations and interests. The self-assessments that are conducted each year by our Board of Directors and our Governance and Nominating Committee include an assessment of whether the Board s then current composition represents the broad range of talent, skill, expertise, and experience that is called for by our Governance Standards.

Director Independence

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

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was made with respect to Mr. Pero after consideration of the following: Mr. Pero is a retired partner of Latham & Watkins LLP and has been a director of Redwood since November 2009; Latham & Watkins LLP provides legal services to Redwood; and Mr. Pero s retirement payments from Latham & Watkins LLP are adjusted to exclude any proportionate benefit received from the fees paid by Redwood to Latham & Watkins LLP.

Two of the members of our Board of Directors, George E. Bull, III and Martin S. Hughes, do not currently qualify as independent under Section 303A of the NYSE Listed Company Manual or our Governance Standards. Mr. Bull does not currently qualify as independent due to the fact that until his retirement in May 2010, he served as Redwood s Chief Executive Officer. Mr. Hughes does not qualify as independent because he is Redwood s current Chief Executive Officer.

Board Leadership Structure

At Redwood, there is a separation of the chairman and chief executive officer roles. The Chairman of the Board of Directors presides over meetings of the Board and serves as a liaison between the Board and management of Redwood. In addition, the Chairman provides input regarding Board agendas, materials, and areas of focus, and may represent Redwood to external constituencies such as investors, governmental representatives, and business counterparties. The Chairman is currently George E. Bull, III, who was one of the founders of Redwood in 1994 and who has continuously served as the Chairman since the inception of Redwood. Mr. Bull is a non-employee director, but is not an independent director due to the fact that he retired as our Chief Executive Officer in May 2010.

Under our Governance Standards, the Board of Directors also has a Presiding Director elected annually by the independent directors, who acts as a lead independent director and carries out certain other responsibilities, as described below. In addition, each of the Audit Committee, Compensation Committee, and Governance and Nominating Committee is chaired by an independent director. Richard D. Baum serves as the Presiding Director. The Presiding Director is responsible for chairing executive sessions of our independent directors, as well as providing input regarding Board agendas, materials, and areas of focus, serving as one of the liaisons between management and the Board, working with the chair of each of the Board s committees to ensure that each committee functions effectively, and performing other functions to facilitate effective communication and corporate governance.

The Board believes this leadership structure is appropriate for Redwood, as it provides for the Board to be led by non-employee directors. As a non-employee Chairman of the Board, Mr. Bull brings significant prior experience as the Chief Executive Officer to bear on his leadership responsibilities, while Mr. Baum, in his role as Presiding Director, brings the important perspective of an independent director.

Executive Sessions

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

Board of Directors Role in Risk Oversight

The Board of Directors takes an active role in risk oversight. At its regular meetings it reviews Redwood s business and investment strategies and plans and seeks an understanding of the related risks as well as management s approach to identifying and managing those risks. Because of the nature of Redwood s business, the Board of Directors focuses on, among other things, establishing the appropriate philosophy with respect to investment risk and determining whether risks actually taken are in accordance with this philosophy. In carrying out its role in risk oversight, the Board of Directors receives and discusses quarterly reports from the Chief Executive Officer and quarterly reports from the Audit Committee, which also carries out a risk oversight function delegated by the Board of Directors.

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Under its charter, the Audit Committee is specifically charged with (i) inquiring of management and Redwood s independent registered public accounting firm about significant risks or exposures with respect to corporate accounting, reporting practices of Redwood, the quality and integrity of the financial reports and controls of Redwood, regulatory and accounting initiatives, and any off-balance sheet structures and (ii) assessing the steps management has taken to minimize such risks. In addition, the Audit Committee is specifically charged with regularly discussing with management Redwood s policies with respect to risk assessment and risk management, including identification of Redwood s major financial and operational risk exposures and the steps management has taken to monitor and control those exposures.

The Audit Committee carries out this function by, among other things, receiving a quarterly risk management report from Redwood s Chief Executive Officer and a quarterly internal audit report from Redwood s head of internal audit, reviewing these reports, and discussing them by asking questions and providing direction to management. In addition, as noted below under Audit Committee Matters Audit Committee Report, the Audit Committee also receives and discusses regular and required communications from Redwood s independent registered public accounting firm regarding, among other things, Redwood s internal controls. In addition to discussion of these reports during Audit Committee meetings, as circumstances merit, the Audit Committee holds separate executive sessions with one or more of the Chief Executive Officer, Redwood s head of internal audit, and representatives of Redwood s independent registered public accounting firm to discuss any matters that the Audit Committee or these persons believe should be discussed in the absence of other members of management.

In addition, when appropriate, the Board of Directors may delegate to other standing committees risk oversight responsibilities with respect to certain matters or request that other committees review certain risk oversight matters. For example, the Compensation Committee has been delegated to review, on an annual basis, whether Redwood s compensation policies and practices are reasonably likely to have a material adverse effect on Redwood.

The Board of Directors believes that this manner of administering the risk oversight function effectively integrates such oversight into the Board of Directors leadership structure, because the risk oversight function is carried out both at the Board level as well as through delegation to the Audit Committee, which consists solely of independent directors, and when appropriate to the other standing committees of the Board of Directors, which also consist solely of independent directors.

Communications with the Board of Directors

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

Director Attendance at Annual Meetings of Stockholders

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

Code of Ethics

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

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

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STOCK OWNERSHIP REQUIREMENTS

Required Stock Ownership by Directors

Pursuant to our Governance Standards, non-employee directors are required to purchase from their own funds at least $50,000 (as measured on a purchase cost basis, including deferred stock units credited to our Executive Deferred Compensation Plan through the voluntary deferral of what otherwise would have been current cash compensation) of our common stock within three years from the date of commencement of their Board membership. Any director whose status has changed from being an employee director to being a non-employee director is not subject to this requirement if that director held at least $50,000 of our common stock at the time of that change in status (as measured on the purchase cost basis outlined in the prior sentence).

In addition, during 2011 non-employee directors were required to own at least $280,000 of our common stock (as measured on a purchase/acquisition cost basis, including deferred stock units acquired through both voluntary and involuntary deferred compensation) by the later of December 31, 2011 or five years from the date of commencement of their Board membership. On March 8, 2012, the Board of Directors increased this ownership requirement to $350,000 and provided that incumbent directors would have through December 31, 2013 to satisfy this increased ownership requirement (or, if later, through five years from the date of commencement of their Board membership). Stock and deferred stock units acquired with respect to the $50,000 stock ownership requirement count toward the attainment of this additional stock ownership requirement.

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

Required Stock Ownership by Executive Officers

The Compensation Committee of our Board of Directors has set the following executive stock ownership guidelines with respect to our executive officers (as measured on a purchase/acquisition cost basis, including deferred stock units acquired through both voluntary and involuntary deferred compensation).

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

As of the date of this Proxy Statement, all of our executive officers were in compliance with these guidelines.

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ITEM 1 ELECTION OF DIRECTORS

Redwood s charter, as currently in effect (the Charter), and Bylaws provide for a classified Board of Directors consisting of Classes I, II, and III. Class III directors are scheduled to be elected at the 2012 Annual Meeting to serve for a three-year term and until their successors are duly elected and qualify. The nominees for the two Class III director positions are set forth below. In the event we are advised prior to the Annual Meeting that any nominee will be unable to serve or for good cause will not serve as a director if elected at the Annual Meeting, the proxies will cast votes for any person who shall be nominated by the present Board of Directors to fill the vacancy. As of the date of this Proxy Statement, we are not aware of any nominee who is unable or unwilling to serve as a director for the full three-year term. The nominees listed below currently are serving as directors of Redwood.

Vote Required

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

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

Class III Nominees to Board of Directors

Name	Position with Redwood
George E. Bull, III	Chairman of the Board
Georganne C. Proctor	Director

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

George E. Bull, III, age 62, is a founder of Redwood and Chairman of the Board. Mr. Bull has served as Chairman of the Board of Redwood since 1994 and served as Chief Executive Officer from 1994 to May 2010. From 1983 through 1997, Mr. Bull was the President of GB Capital. GB Capital assisted banks, insurance companies, and savings and loans in managing portfolios of securitized and unsecuritized mortgage loans, in arranging collateralized borrowings, in hedging balance sheet risks, and with other types of capital markets transactions. Mr. Bull holds a B.A. in Economics from the University of California at Davis.

The Board of Directors concluded that Mr. Bull should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Leadership attributes and management experience, including experience as Chief Executive Officer of Redwood Trust since its founding in 1994 to May 2010

Skill and experience in investing in real estate-related assets and managing portfolios of such investments

Skill and experience in managing balance sheet exposures and managing financial risks

Skill and experience in executing capital markets transactions

Professional and educational background

Georganne C. Proctor, age 55, has been a director of Redwood since March 2006. Ms. Proctor is the former Chief Financial Officer of TIAA-CREF, and served in that position from June 2006 to July 2010. From July 2010 to October 2010, Ms. Proctor served as Executive Vice President for Enterprise Integration at TIAA-CREF. From 2003 to 2005, Ms. Proctor was Executive Vice President of Golden West Financial Corporation, a thrift institution. From 1994 to 1997, Ms. Proctor was Vice President of Bechtel Group, a global engineering firm, and also served as its Senior Vice President and Chief Financial Officer from 1997 to 2002 and as a director from 1999 to 2002. From 1991 to 1994, Ms. Proctor served as finance director of certain divisions of The Walt Disney Company, a diversified worldwide entertainment company. Ms. Proctor currently serves on the Board of Directors of Och-Ziff Capital Management Group. Ms. Proctor previously served on the Board of Directors of Kaiser Aluminum Corporation from 2006 to 2009. Ms. Proctor holds a B.S. in Business Management from the University of South Dakota and an M.B.A. from California State University East Bay.

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The Board of Directors concluded that Ms. Proctor should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Management experience
Experience as a chief financial officer
Expertise and experience in the banking and investment management industries
Professional and educational background

Current Directors   Terms Expiring After 2012

Richard D. Baum, age 65, has been a director of Redwood since 2001. Mr. Baum is currently the President and Managing Partner of Atwater Retirement Village LLC (a private company). From 2008 to mid-2009, Mr. Baum served as Executive Director of the California Commission for Economic Development. He also served as the Chief Deputy Insurance Commissioner for the State of California from 1991 to 1994 and 2003 to 2007. Mr. Baum served from 1996 to 2003 as the President of Care West Insurance Company, a worker s compensation insurance company, and prior to 1991 as Senior Vice President of Amfac, Inc., a diversified operating company engaged in various businesses, including real estate development and property management. Mr. Baum holds a B.A. from Stanford University, an M.A. from the State University of New York, and a J.D. from George Washington University, National Law Center. Mr. Baum is a Class I director whose term expires in 2013.

The Board of Directors concluded that Mr. Baum should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Leadership attributes and management experience
Experience as a chief executive officer
Experience in government service and financial regulation
Expertise and experience relating to the insurance industry
Expertise and experience relating to the real estate development industry and property management business
Expertise and experience relating to institutional governance
Professional and educational background

Mariann Byerwalter, age 51, has been a director of Redwood since 1998. Ms. Byerwalter is currently Chairman of JDN Corporate Advisory LLC (a privately held advisory services firm). Ms. Byerwalter served as the Chief Financial Officer and Vice President for Business Affairs of Stanford University from 1996 to 2001. She was a partner and co-founder of America First Financial Corporation from 1987 to 1996, and she served as Chief Operating Officer, Chief Financial Officer, and a director of America First Eureka Holdings, a publicly traded institution and the holding company for Eureka Bank, from 1993 to 1996. She serves on the Board of Directors of Pacific Life Corp., SRI International, Burlington Capital Corporation, WageWorks, Inc., the Lucile Packard Children s Hospital, and the Stanford Hospital and Clinics. She also currently serves on the Board of Trustees of Stanford University and as a Trustee of certain investment companies affiliated with Charles Schwab Corporation. Ms. Byerwalter holds a B.A. from Stanford University and an M.B.A. from Harvard Business School. Ms. Byerwalter is a Class I director whose term expires in 2013.

The Board of Directors concluded that Ms. Byerwalter should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Leadership attributes and management and entrepreneurial experience
Experience as a chief financial officer
Expertise and experience in the banking and insurance industries

Expertise and experience relating to institutional governance
Professional and educational background

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Douglas B. Hansen, age 54, is a founder of Redwood and served as President from 1994 through 2008. Mr. Hansen retired from his position as President of Redwood at the end of 2008. From 1990 through 1997, Mr. Hansen was a Principal with GB Capital. GB Capital assisted banks, insurance companies, and savings and loans in managing portfolios of securitized and unsecuritized mortgage loans, in arranging collateralized borrowings, in hedging balance sheet risks, and with other types of capital markets transactions. Mr. Hansen currently serves on the Board of Governors for Opportunity International, the Board of Directors of the Pinhead Institute, and on the Board of Trustees of the International Center of Photography. Mr. Hansen holds a B.A. in Economics from Harvard College and an M.B.A. from Harvard Business School. Mr. Hansen is a Class II director whose term expires in 2014.

The Board of Directors concluded that Mr. Hansen should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Leadership attributes and management experience, including experience as President of Redwood Trust since its founding in 1994 through 2008
Skill and experience in investing in real estate-related assets and managing portfolios of such investments
Skill and experience in managing balance sheet exposures and managing risks
Skill and experience in executing capital markets transactions
Experience in finance and accounting matters
Professional and educational background

Martin S. Hughes, age 54, has served as Chief Executive Officer since May 2010. Mr. Hughes served as President from January 2009 to January 2012, Co-Chief Operating Officer from November 2007 to May 2010, Chief Financial Officer from 2006 to April 2010, Treasurer from 2006 to 2007, and Vice President from 2005 to 2007. Mr. Hughes has over 18 years of senior management experience in the financial services industry. From 2000 to 2004, Mr. Hughes was the President and Chief Financial Officer for Paymap, Inc. In addition, Mr. Hughes served as a Vice President and Chief Financial Officer for Redwood from 1998 to 1999. Mr. Hughes also served as Chief Financial Officer for North American Mortgage Company from 1992 to 1998. Prior to 1992, Mr. Hughes was employed for eight years at an investment banking firm and for four years at Deloitte & Touche. Mr. Hughes has a BS in accounting from Villanova University. Mr. Hughes is a Class II director whose term expires in 2014.

The Board of Directors concluded that Mr. Hughes should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Leadership attributes and management experience, including experience as Chief Executive Officer, President, and Chief Financial Officer of Redwood
Skill and experience in managing balance sheet exposures and managing risks
Skill and experience in executing capital markets transactions
Expertise and experience in the mortgage lending and investment banking industries
Accounting expertise and experience
Professional and educational background

Greg H. Kubicek, age 55, has been a director of Redwood since 2002. Mr. Kubicek is President of The Holt Group, Inc., a real estate company that develops, owns, and manages commercial real estate properties and is a residential homebuilder. Mr. Kubicek currently serves as a director for Cadet Manufacturing Co. He has also served as Chairman of the Board of Cascade Corporation, an international manufacturing corporation. Mr. Kubicek holds a B.A. in Economics from Harvard College. Mr. Kubicek is a Class II director whose term expires in 2014.

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The Board of Directors concluded that Mr. Kubicek should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes
- Management and entrepreneurial experience
- Expertise and experience in the real estate development industry
- Experience and expertise in the property management business
- Professional and educational background

Charles J. Toeniskoetter, age 67, has been a director of Redwood since 1994. Mr. Toeniskoetter is Chairman of Toeniskoetter Development, Inc. a company that has developed, owns, and manages over $250 million of commercial and industrial real estate properties, and Chairman & CEO of Toeniskoetter Construction, Inc. Mr. Toeniskoetter serves on the Board of Directors of SJW Corp. (NYSE: SJW) and Heritage Commerce Corp. (NASDAQ: HTBK), as well as a number of other community organizations. Mr. Toeniskoetter holds a B.S. in Mechanical Engineering from the University of Notre Dame and an M.B.A. from the Stanford University Graduate School of Business. Mr. Toeniskoetter is a Class II director whose term expires in 2014.

The Board of Directors concluded that Mr. Toeniskoetter should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes, including experience as a chief executive officer
- Management and entrepreneurial experience
- Experience as director of public companies
- Expertise and experience in the commercial real estate industry
- Expertise and experience in the banking and investment management industries
- Professional and educational background

Jeffrey T. Pero, age 65, has been a director of Redwood since November 2009. Mr. Pero retired in October 2009, after serving as a partner for more than 23 years, from the international law firm of Latham & Watkins LLP. At Latham & Watkins LLP, Mr. Pero s practice focused on advising clients regarding corporate governance matters, debt and equity financings, mergers and acquisitions, and compliance with U.S. securities laws; Mr. Pero also served in various firm management positions. Mr. Pero currently serves as a director of BRE Properties, Inc., a real estate investment trust. Mr. Pero holds a B.A. from the University of Notre Dame and a J.D. from New York University School of Law. Mr. Pero is a Class I director, whose term expires in 2013.

The Board of Directors concluded that Mr. Pero should continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Expertise and experience in structuring and negotiating debt and equity financings
- Expertise and experience relating to corporate governance
- Management experience
- Expertise and experience relating to real estate investment trusts
- Expertise and experience relating to the U.S. securities laws
- Professional and educational background

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Current Directors Terms Expiring in May 2012

Thomas C. Brown, age 63, has been a director of Redwood since 1998. Mr. Brown is currently CEO and Principal shareholder of Urban Bay Properties, Inc. Mr. Brown has previously held CEO or senior officer positions with McGuire Real Estate, PMI Mortgage Insurance, Centerbank, and Merrill Lynch and Co., Inc. Mr. Brown s experience encompasses over 25 years in mortgage finance, real estate, banking, and investment banking. Mr. Brown holds a B.S. from Boston University and an M.B.A. from the University of Buffalo.

The Board of Directors concluded that Mr. Brown should serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

Leadership attributes and management experience
Experience as a chief executive officer and chief operating officer
Expertise and experience in the mortgage finance, real estate, banking, and investment banking industries
Professional and educational background

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MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

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

Our Board of Directors held a total of six meetings during 2011. The non-employee directors of Redwood met in executive session at each of the five regularly scheduled meetings, for a total of five times during 2011. The Presiding Director, who was also the Chair of the Governance and Nominating Committee during 2011, presided at executive sessions of the independent directors. No director attended fewer than 75% of the meetings of the Board of Directors and the committees on which he or she served and all of our directors attended last year s Annual Meeting of Stockholders in person.

Audit Committee

The Audit Committee provides oversight regarding accounting, auditing, risk management, and financial reporting practices of Redwood. The Audit Committee consists solely of non-employee directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE and the rules of the SEC. Our Board of Directors has determined that all members of the Audit Committee are financially literate within the meaning of the applicable regulations and standards and has designated Ms. Proctor and Mr. Hansen as audit committee financial experts within the meaning of the applicable regulations and standards. The Audit Committee met four times in 2011 in order to carry out its responsibilities, as discussed below under Audit Committee Matters Audit Committee Report.

Compensation Committee

The Compensation Committee reviews and approves Redwood s compensation philosophy, reviews the competitiveness of Redwood s compensation practices, as well as risks that may arise from those practices, determines and approves the annual base salaries and incentive compensation paid to our executive officers, approves the terms and conditions of proposed incentive plans applicable to our executive officers and other key management employees, approves and oversees the administration of Redwood s employee benefit plans, and reviews and approves hiring and severance arrangements for our executive officers. The Compensation Committee consists solely of non-employee directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE, are non-employee directors within the meaning of the rules of the SEC, and are outside directors within the meaning of the rules of the Internal Revenue Service (the IRS). The Compensation Committee met six times in 2011 in order to carry out its responsibilities as more fully discussed below under Executive Compensation Compensation Discussion and Analysis.

Governance and Nominating Committee

The Governance and Nominating Committee reviews and considers corporate governance guidelines and principles, evaluates potential director candidates and recommends qualified candidates to the full Board, reviews the management succession plan and evaluates executives in connection with succession planning, and oversees the evaluation of the Board of Directors. The Governance and Nominating Committee consists solely of non-employee directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE. The Governance and Nominating Committee met seven times in 2011 in order to carry out its responsibilities.

Committee Members

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

Audit	Compensation	Governance and Nominating
Greg H. Kubicek	Georganne C. Proctor	Richard D. Baum
Thomas C. Brown	Richard D. Baum	Douglas B. Hansen
Mariann Byerwalter	Thomas C. Brown	Greg H. Kubicek
Douglas B. Hansen	Mariann Byerwalter	Jeffrey T. Pero
Georganne C. Proctor	Jeffrey T. Pero	Charles J. Toeniskoetter
Charles J. Toeniskoetter		

DIRECTOR COMPENSATION

Information on our non-employee director cash compensation to be paid in 2012 is set forth in the table below.

Annual Retainer	$ 70,000*
Committee Meeting Fee (in person attendance)	$ 2,000
Committee Meeting Fee (telephonic attendance)	$ 1,000

* The Chair of the Audit Committee receives an additional annual cash retainer of $20,000 and the Chairs of the Compensation Committee and the Governance and Nominating Committee each receive an additional annual cash retainer of $15,000. The Presiding Director receives an additional annual cash retainer of $20,000. The Chairman of the Board of Directors receives an additional annual cash retainer of $50,000 per annum.

Non-employee directors are also reimbursed for reasonable out-of-pocket expenses incurred in attending Board and committee meetings, as well as for their and, in some cases, their guest s attendance at other Redwood-related meetings or events. Non-employee directors may also be reimbursed for out-of-pocket expenses incurred in attending conferences or educational seminars that relate to their Board service.

Non-employee directors are also granted deferred stock units (or comparable equity-based awards) each year at the time of the annual meeting of stockholders. The number of deferred stock units (or comparable equity-based awards) granted is determined by dividing $75,000 by the closing price of Redwood s common stock on the NYSE on the day immediately prior to grant. Non-employee directors may also be granted equity-based awards upon their initial election to the Board. Deferred stock units (or comparable equity-based awards) may be credited under our Executive Deferred Compensation Plan. These deferred stock units (or comparable equity-based awards) are fully vested upon grant, although they are generally subject to a mandatory four-year holding period. Dividend equivalent rights on deferred stock units (or comparable equity-based awards) are generally paid in cash to directors on each dividend distribution date.

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

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The following table provides information on non-employee director compensation for 2011, which compensation was paid in accordance with the 2011 director compensation policy disclosed in Redwood s 2011 annual proxy statement or in accordance with the changes to that policy subsequently approved by the Board. Director compensation is set by the Board and is subject to change. Directors who are employed by Redwood do not receive any compensation for their Board activities.

Non-Employee Director Compensation 2011[1]

Name	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3]	All Other Compensation ($)[4]	Total ($)
Richard D. Baum	$ 123,354	$ 74,993		$ 198,347
Thomas C. Brown	$ 90,000	$ 74,993		$ 164,993
George E. Bull, III	$ 142,582	$ 74,993		$ 217,575
Mariann Byerwalter	$ 89,000	$ 74,993		$ 163,993
Douglas B. Hansen	$ 70,000	$ 74,993		$ 144,993
Greg H. Kubicek	$ 109,000	$ 74,993		$ 183,993
Jeffrey T. Pero	$ 92,000	$ 74,993		$ 166,993
Georganne C. Proctor	$ 105,000	$ 74,993		$ 179,993
Charles J. Toeniskoetter	$ 89,000	$ 74,993		$ 163,993

(1) The table does not include dividend equivalent rights paid on deferred stock units or options, as the value of the dividend equivalent rights was factored into the grant date fair value of the original deferred stock unit and option awards in accordance with FASB Accounting Standards Codification Topic 718.

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

(3) Value of deferred stock units awarded determined in accordance with FASB Accounting Standards Codification Topic 718.

(4) Six directors brought a guest to the annual retreat of Redwood s Board of Directors, at a cost per guest of less than $1,000 and at an aggregate cost to Redwood for all six guests of approximately $4,500.

The following table provides information on stock unit distributions to non-employee directors from our Executive Deferred Compensation Plan in 2011. With the exceptions of Ms. Byerwalter and Mr. Bull, there were no distributions to non-employee directors from the Plan. Stock units distributed represent compensation previously awarded in prior years and were reported as director compensation in those prior years.

Name	Stock Units Distributed	Aggregate Value of Stock Units Distributed ($)
Mariann Byerwalter[1]	1,216	$ 19,242
George Bull[2]	362,673	$ 5,741,117

(1) Ms. Byerwalter had deferred stock units distributed in 2011 that were awarded in 2007. The aggregate value of stock units distributed is calculated by multiplying the number of stock units distributed by the fair market value of

Redwood common stock on the date of distribution.

(2) Mr. Bull had deferred stock units distributed in 2011 that were awarded from 2005 to 2009, while he was still employed at Redwood as the Chief Executive Officer. The aggregate value of stock units distributed is calculated by multiplying the number of stock units distributed by the fair market value of Redwood common stock on the date of distribution.

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EXECUTIVE OFFICERS

Executive officers and their positions with Redwood as of December 31, 2011 are listed in the table below. Of these executive officers, for purposes of this Proxy Statement, the Named Executive Officers (NEOs) include: Mr. Hughes, Mr. Nicholas, Ms. Merdian, Mr. Chisholm, and Mr. Isbrandtsen.

Name	Position with Redwood as of December 31, 2011	Age
Martin S. Hughes	President & Chief Executive Officer(1)	54
Brett D. Nicholas	Executive Vice President, Chief Operating Officer & Chief Investment Officer(1)	43
Diane L. Merdian	Chief Financial Officer(2)	52
Scott M. Chisholm	Managing Director	46
John H. Isbrandtsen	Managing Director	50
Fred J. Matera	Managing Director(1)	48
Andrew P. Stone	Managing Director, General Counsel & Secretary	41
Harold F. Zagunis	Managing Director	54

(1) As previously announced, beginning on January 12, 2012, Mr. Nicholas assumed the sole role of President, Mr. Matera assumed the role of Chief Investment Officer, and Mr. Hughes continued to serve solely in the role of Chief Executive Officer.

(2) As previously announced, effective March 9, 2012, Ms. Merdian ceased employment with Redwood and Mr. Christopher J. Abate was appointed as interim Chief Financial Officer and as an executive officer of Redwood.

Executive officers of Redwood serve at the discretion of our Board of Directors. Biographical information regarding Mr. Hughes is provided in the preceding pages. Biographical information regarding Mr. Nicholas, Ms. Merdian, Mr. Chisholm, Mr. Isbrandtsen, Mr. Matera, Mr. Stone, and Mr. Zagunis is set forth below. In addition, biographical information regarding Mr. Abate is set forth below.

Brett D. Nicholas, age 43, has served as President since January 2012. Mr. Nicholas served as Executive Vice President and Chief Operating Officer from May 2010 to January 2012 and as Chief Investment Officer from 2007 to January 2012. Mr. Nicholas also served as Co-Chief Operating Officer from 2007 to May 2010 and as a Vice President from 1996 to 2007. Prior to joining Redwood, he was Vice President of Secondary Marketing at California Federal Bank, FSB and Vice President of Secondary Marketing at Union Security Mortgage. Mr. Nicholas holds a B.A. in economics from the University of Colorado at Boulder and is a graduate of the Stanford University Executive Program.

Diane L. Merdian, age 52, served as Chief Financial Officer from April 2010 until she ceased employment with Redwood on March 9, 2012. Ms. Merdian was a Class III Director of Redwood from August 2008 to November 2009. Ms. Merdian has 24 years experience as an equity research analyst focused on the banking sector. From 2003 to April 2008, Ms. Merdian was a bank strategist and senior bank research analyst of Keefe, Bruyette & Woods, where she also served as a Managing Director and head of the large-cap bank group. Between 1984 and 2002, Ms. Merdian also held equity analyst positions at Morgan Stanley, Montgomery Securities, Wellington Management, Smith Barney, and Salomon Brothers. Ms. Merdian was an economic research associate for the Federal Reserve Bank of Kansas City from 1981 to 1983. Ms. Merdian holds a B.A. in economics, with highest distinction, from the University of Kansas. Ms. Merdian also attended the Graduate School of Business at the University of Chicago as a Leon C. Marshal Scholar and New York University.

Scott M. Chisholm, age 46, has served as a Managing Director since September 2009 and is the head of commercial investments. Prior to joining Redwood, he was a Managing Director and managed the New York office of Prudential Mortgage Capital Company from January 2001 until September 2009. Prior to 2001, Mr. Chisholm held various positions in the real estate finance departments at Deutsche Bank, Lehman Brothers and JPMorgan Chase. Mr. Chisholm holds a B.A. in history from Trinity College and an M.S. in real estate from Columbia University.

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John H. Isbrandtsen, age 50, has served as a Managing Director since March 2008 and is head of residential acquisitions and securitization. Mr. Isbrandtsen has been employed by Redwood since February 1999. Prior to joining Redwood, he served as Residential Securitization Manager at Bank of America, Senior Vice President at Walsh Acquisition Corp., Vice President at Gruntal Financial Corp., Assistant Treasurer at Carteret Savings Bank, and as an Analyst at City Federal Savings Bank. Mr. Isbrandtsen has a B.S. degree in finance and economics from Babson College.

Fred J. Matera, age 48, has served as Chief Investment Officer since January 2012. Mr. Matera served as Managing Director since July 2008, when he joined Redwood. Prior to joining Redwood and since the spring of 2001, he was a Managing Director and Co-Head of Structured Credit at RBS Greenwich Capital. Mr. Matera began his career in finance in 1989 as a mortgage trader, and has held a number of trading positions in financial services firms, including Goldman Sachs, DLJ, and First Boston. Prior to graduating from business school, Mr. Matera was an analyst at the Federal Reserve Bank of New York. Mr. Matera has a B.A. in economics from Tufts University, and an M.B.A. in finance from The Wharton School of the University of Pennsylvania.

Andrew P. Stone, age 41, has served as Managing Director, General Counsel and Secretary since December 2008. Prior to joining Redwood, he served as Deputy General Counsel of Thomas Weisel Partners Group, Inc. from 2006 to 2008 and between 1996 and 2006 practiced corporate and securities law at Sullivan & Cromwell LLP and Brobeck, Phleger & Harrison LLP. Mr. Stone holds a B.A. in mathematics and history from Kenyon College and a J.D. from New York University School of Law.

Harold F. Zagunis, age 54, has served as a Managing Director since March 2008. Mr. Zagunis served as Vice President from 1995 to 2008, and served as Chief Risk Officer, Chief Financial Officer, Controller, Treasurer, and Secretary at different times between 1999 and 2011. Currently, Mr. Zagunis is the head of commercial credit and operations. Prior to joining Redwood, from 1986 to 1995, he was Vice President of Finance for Landmark Land Company, Inc., a publicly traded company owning savings and loan and real estate development interests. Mr. Zagunis holds B.A. degrees in mathematics and economics from Willamette University and an M.B.A. from Stanford University Graduate School of Business.

As noted above, effective as of March 9, 2012, Mr. Abate was also designated as an executive officer of Redwood.

Christopher J. Abate, age 32, has served as interim Chief Financial Officer since March 9, 2012. Mr. Abate has also served as Redwood s Controller since January 2009 and has been employed by Redwood since April 2006. Prior to being named Controller, Mr. Abate served as a Vice President beginning in December 2007 and as a Managing Director since December 2008, with responsibility during the majority of that time for Redwood s accounting and financial reporting functions. Before joining Redwood, Mr. Abate was employed by PricewaterhouseCoopers LLP as an auditor and consultant. He holds a B.A. in accounting and finance from Western Michigan University, an M.B.A. from the University of California at Berkeley and Columbia University, and is a certified public accountant.

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SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information, as of March 30, 2012, on the beneficial ownership of our common stock by our directors, executive officers, and by all of our directors and executive officers as a group. As indicated in the notes, the table includes common stock equivalents held by these individuals through Redwood-sponsored benefits programs. Except as otherwise indicated and for such power that may be shared with a spouse, each person has sole investment and voting power with respect to the shares shown to be beneficially owned. Beneficial ownership is determined in accordance with the rules of the SEC.

Executive Officers(1)	Number of Shares of Common Stock Beneficially Owned(2)	Percent of Class(3)
Martin S. Hughes(4)	439,181	*
Brett D. Nicholas(5)	407,084	*
Christopher J. Abate(6)	9,266	*
Scott M. Chisholm(7)	25,359	*
John H. Isbrandtsen(8)	92,349	*
Fred J. Matera(9)	58,661	*
Andrew P. Stone(10)	25,156	*
Harold F. Zagunis(11)	199,566	*
Non-Employee Directors		
Richard D. Baum(12)	27,927	*
Thomas C. Brown(13)	21,324	*
George E. Bull, III(14)	978,111	1.24 %
Mariann Byerwalter(15)	21,504	*
Douglas B. Hansen(16)	436,915	*
Greg H. Kubicek(17)	142,697	*
Jeffrey T. Pero(18)	21,188	*
Georganne C. Proctor(19)	41,293	*
Charles J. Toeniskoetter(20)	42,096	*
All directors and executive officers as a group (17 persons)(21)	2,989,675	3.72 %

* Less than 1%.

(1) As previously announced, effective March 9, 2012, Diane L. Merdian, who served as Chief Financial Officer during 2011, ceased employment with Redwood and Mr. Christopher J. Abate was appointed as interim Chief Financial Officer and as an executive officer of Redwood. As of March 30, 2012, Ms. Merdian held 13,179 shares of common stock and 20,430 vested deferred stock units.

(2) Represents shares of common stock outstanding, common stock underlying vested options that are exercisable within 60 days of the date of this Proxy Statement, and common stock underlying deferred stock units that have

vested or will vest within 60 days of the date of this Proxy Statement. Does not include deferred stock units scheduled to be granted to non-employee directors in accordance with our non-employee director compensation policy following our 2012 Annual Meeting of Stockholders.

(3) Based on 78,756,319 shares of our common stock outstanding as of March 30, 2012.

(4) Includes 52,273 shares of common stock and 386,908 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(5) Includes 71,656 shares of common stock, 53,537 shares issuable upon the exercise of stock options exercisable within 60 days the date of this Proxy Statement, and 281,891 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(6) Includes 2,238 shares of common stock and 7,028 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(7) Includes 854 shares of common stock and 24,505 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

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(8) Includes 10,721 shares of common stock, 12,652 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 68,976 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(9) Includes 58,661 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(10) Includes 845 shares of common stock, and 24,311 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(11) Includes 34,219 shares of common stock, 34,521 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 130,826 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(12) Includes 11,222 shares of common stock, 4,256 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 12,449 vested deferred stock units.

(13) Includes 6,375 shares of common stock, 2,500 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 12,449 vested deferred stock units.

(14) Includes 706,054 shares of common stock held of record by the Bull Trust, 600 shares held of record by Mr. Bull s spouse, 131,265 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 140,792 deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(15) Includes 4,723 shares of common stock, 2,500 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 14,281 vested deferred stock units.

(16) Includes 306,746 shares of common stock, 117,608 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 12,561 vested deferred stock units.

(17) Includes 92,024 shares of common stock held in direct ownership, living trusts and through an unaffiliated pension plan, 1,913 shares held of record by Mr. Kubicek s spouse, 2,500 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 46,260 vested deferred stock units.

(18) Includes 4,225 shares of common stock and 16,963 vested deferred stock units.

(19) Includes 9,845 shares held in the Proctor Trust and 31,448 vested deferred stock units that have vested or will vest within 60 days of the date of this Proxy Statement.

(20) Includes 22,147 shares with respect to which Mr. Toeniskoetter has voting and investment power that are held in the Toeniskoetter & Breeding, Inc. Development Profit Sharing Trust, 7,500 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 12,449 vested deferred stock units.

(21) Includes 1,338,080 shares of common stock, 368,839 shares issuable upon the exercise of stock options exercisable within 60 days of the date of this Proxy Statement, and 1,282,756 vested deferred stock units.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

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

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Class[(1)]
BlackRock, Inc.[(2)]	5,215,170	6.6 %
Janus Capital Management LLC[(3)]	5,633,686	7.2 %
RS Investment Management Co. LLC[(4)]	3,954,803	5.0 %
Wallace R. Weitz & Company[(5)]	7,478,568	9.5 %

(1) Based on 78,756,319 shares of our common stock outstanding as of March 30, 2012.

(2) Address: 40 East 52nd Street, New York, New York 10022. The information in the above table and this footnote concerning the shares of common stock beneficially owned by BlackRock, Inc. (BlackRock) is based on the amended Schedule 13G filed by BlackRock with the SEC on February 13, 2012, which indicates that BlackRock and certain other subsidiary entities make aggregate reports on Schedule 13G and that the such entities, in the aggregate, have sole dispositive power and sole voting power with respect to 5,215,170 shares.

(3) Address: 151 Detroit Street, Denver, Colorado 80206. The information in the above table and this footnote concerning the shares of common stock beneficially owned by Janus Capital Management LLC (Janus) is based on the amended Schedule 13G filed by Janus with the SEC on February 14, 2012, which indicates that Janus and certain other entities, in their respective capacities as investment advisers: (i) make aggregate reports on Schedule 13G with respect to securities held by portfolios they manage, and with respect to which they do not have the right to receive dividends or the proceeds from any sale securities, and (ii) disclaim any ownership associated with such rights. The aggregate number of shares of common stock which may be deemed to be beneficially owned by Janus includes 5,633,686 shares with respect to which Janus has shared dispositive power and shared voting power.

(4) Address: 388 Market Street, Suite 1700, San Francisco, California 94111. The information in the above table and this footnote concerning the shares of common stock beneficially owned by RS Investment Management Co. LLC (RS) is based on the Schedule 13G jointly filed with the SEC on February 9, 2012 by RS and two of its parent companies namely, The Guardian Life Insurance Company of America and Guardian Investor Services LLC. The aggregate number of shares of common stock reported as beneficially owned by RS includes 3,954,803 shares with respect to which RS has shared dispositive power, of which RS has shared voting power with respect to 3,920,213 shares.

(5) Address: 1125 South 103rd Street, Suite 200, Omaha, Nebraska 68124. The information in the above table and this footnote concerning the shares of common stock beneficially owned by Wallace R. Weitz & Company and Wallace R. Weitz (Weitz) is based on the amended Schedule 13G filed by Weitz with the SEC on February 3, 2012. The aggregate number of shares of common stock reported as beneficially owned by Weitz includes 7,478,568 shares with respect to which Weitz has sole dispositive power and sole voting power.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Committee

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

The Committee currently consists of Georganne C. Proctor (Chair), Richard D. Baum, Thomas C. Brown, Mariann Byerwalter, and Jeffrey T. Pero. The Committee met six times in 2011 and has met two times to date in 2012.

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

The Committee s process for reviewing all components of the compensation of the Chief Executive Officer (CEO) and that of the other Named Executive Officers (NEOs).
The reasons for paying each element of compensation to the NEOs and Redwood s compensation philosophy, objectives, and methodology for competitive benchmarking, including the use of peer groups.
The performance measures and goals used for performance-based compensation and the factors taken into account in the Committee s determination of whether those measures and goals are satisfied.
The severance and change of control payments that certain executives may become entitled to under certain circumstances.
The role of the Committee s independent compensation consultant.

Executive Summary

Redwood has adopted a performance-based compensation philosophy for its executive officers. Under that philosophy, Redwood seeks to provide incentives to achieve both short-term and long-term business objectives, align the interests of executive officers with the interests of Redwood s long-term stockholders, and ensure that Redwood can hire and retain talented individuals in a competitive marketplace. Executive officers receive compensation through a combination of the following types of compensation: base salary; performance-based annual bonus; long-term equity-based awards; and other non-cash benefits such as coverage for themselves and their families under Redwood s medical, dental, and vision health insurance plans.

Executive officers of Redwood are designated by the Board of Directors. For 2011 there were eight executive officers, which as of December 31, 2011 were Redwood s:

President & Chief Executive Officer;
Chief Operating Officer, Chief Investment Officer & Executive Vice President;
Chief Financial Officer;
General Counsel & Secretary; and
Four other Managing Directors

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In accordance with SEC regulations, this Compensation Discussion and Analysis is focused on the compensation of Redwood s Named Executive Officers (NEOs) for 2011, although it also provides some general discussion and analysis of aspects of Redwood s compensation programs, plans, and practices that apply to all of Redwood s executive officers. Under SEC regulations, Redwood has five NEOs for 2011, which as of December 31, 2011 were Redwood s:

President & Chief Executive Officer;
Chief Operating Officer, Chief Investment Officer & Executive Vice President
Chief Financial Officer; and
Two other Managing Directors

Redwood s NEOs for 2011 account for five of the 77 employees of Redwood as of December 31, 2011.

Each year the Committee reviews Redwood s compensation philosophy and its executive compensation plans and programs and, after taking into account the outcome of the most recent shareholder advisory vote on executive compensation, makes compensation determinations it believes are necessary or appropriate in light of its executive compensation objectives. Highlighted below are summaries of some of the key determinations made by the Committee with respect to 2011 and, in some cases, 2012. Each of these key items is discussed more fully within this Compensation Discussion and Analysis, as well as within the section of this Proxy Statement relating to the stockholders vote on an advisory resolution to approve Named Executive Officer compensation (pages 62 65).

- ***2011 and 2012 base salary for the CEO position remains unchanged from 2007***. The base salary paid for the position of chief executive officer was not increased for 2011 or 2012, and remains at the same level that was in place at Redwood for that position in 2007.
- ***2011 base salaries for the other NEOs remained unchanged from 2010***. The base salary paid for the other NEOs was not increased for 2011.

Annual bonus compensation for Redwood s CEO in 2011 declined by 75% from 2010 and total 2011 compensation for Redwood s CEO declined by 30% from 2010, reflecting the Committee s adherence to pay-for-performance principles. Redwood s financial performance in 2011 was not as strong as it was in 2010. Net income of $26.3 million in 2011 was $83.7 million lower than net income in 2010 and return-on-equity in 2011 was 2.6%, as compared to a return-on-equity of 10.92% in 2010. Consistent with pay-for-performance principles, the 2011 annual bonus compensation and 2011 total compensation for Martin S. Hughes, Redwood s chief executive officer, also declined in 2011 as compared to 2010.

- o Mr. Hughes received a 2011 annual performance-based bonus of $288,750, which represents a decline of 75% from the annual performance-based bonus of $1.17 million he received for 2010.
- o Mr. Hughes received total compensation for 2011 of $3.23 million, which represents a decline of 30% from the total compensation of $4.59 million Mr. Hughes received for 2010 (based on the Summary Compensation table on page 46 of this Proxy Statement). Of his total compensation for 2011, approximately 70% was in the form of long-term equity-based awards with three- or four-year vesting or holding periods.

In accordance with pay-for-performance principles, 2011 annual bonus compensation for NEOs was primarily determined by Redwood s 2011 financial performance. For 2011, Redwood had $26.3 million of net income and a 2.6% return-on-equity. This financial performance was below the threshold established by the Committee in early 2011 for the payment of any portion of the component of annual bonus compensation determined based on Redwood s financial performance. Accordingly, for 2011, of the aggregate $4.1 million in target annual bonus compensation that could have been earned by NEOs, only an aggregate of $1.08 million, or 26%, was paid. The $1.08 million aggregate amount of annual bonus compensation that was paid to NEOs for 2011 was paid in respect of the component of annual bonus compensation determined based on individual executive performance.

Compensation paid to NEOs continued to align the interests of stockholders and NEOs by delivering approximately 63% of total 2011 compensation to NEOs in the form of equity-based awards. For 2011, aggregate compensation paid to NEOs totaled approximately $9 million, of which approximately $5.6 million (or 63%) was in the form of equity-based awards that generally vest over three- or four-year periods. The Committee believes that delivering a significant portion of compensation in the form of equity-based awards is appropriate to align the interests of NEOs with those of long-term Redwood stockholders.

The Committee continued to use performance-based equity awards in 2011 for NEOs. Of the long-term equity-based awards granted in the fourth quarter of 2011 to NEOs, 50% were performance-based awards that vest after three years only if total stockholder return over the December 2011 to December 2014 three-year period exceeds a specified performance threshold further described below under 2011 Long-Term Equity-Based Awards.

The Committee continued to impose mandatory holding periods for long-term equity grants to NEOs. The Committee continues to impose mandatory holding periods on equity grants to NEOs. For example, deferred stock units granted to NEOs that vest on a pro-rata basis over four years (*i.e.*, ¼th of the awards vest each year over the four-year vesting period) are subject to a mandatory holding period with respect to all underlying shares that vest prior to the four-year anniversary of the grant date with the result that none of underlying shares could be transferred or sold by the NEOs until after the fourth anniversary of the grant date.

Redwood eliminated excise tax gross-ups for change-in-control severance payments. In March 2011, each of the three outstanding employment agreements between an executive officer and Redwood was amended to eliminate the provisions of those agreements that provided for tax gross-ups with respect to excise taxes that could be imposed on change-in-control severance payments that could be made under these agreements in the future. As a result, Redwood does not have any employment agreements in place with any executive (or any other employee) that provide for an excise tax gross-up. The Committee does not intend to offer excise tax gross-up provisions in any future employment agreements for executives (or any other employees).

In 2011, the Committee continued to use the methodology it previously adopted for making annual bonus payments to NEOs, which methodology generally reduces the proportion of annual bonuses paid in cash and increases the proportion of annual bonuses paid in equity awards with a mandatory three-year holding period. In March 2011, the Committee decided that any annual bonus paid to an NEO for 2011 that exceeded $250,000 in value would not be paid fully in cash. In particular, as any NEO s annual bonus increases in value above $250,000, an increasing proportion of that bonus would be paid in the form of equity awards with a mandatory three-year holding period, rather than paid in cash. Under this methodology, in years when any NEO s annual bonus exceeds $250,000, a greater portion of that NEO s annual bonus will be exposed to the future financial performance of Redwood, which the Committee believes results in a greater alignment of executive and stockholder interests.

Shareholders Most Recent Say-on-Pay Vote

At Redwood s 2011 annual meeting of stockholders, shareholders had the opportunity to cast an advisory vote on executive compensation. Approximately 94% of the votes cast in that 2011 say-on-pay vote were voted for approval of the compensation of the named executive officers as disclosed in the 2011 proxy statement. The Committee has considered the results of the 2011 say-on-pay vote and believes that the overwhelming support of Redwood shareholders in the 2011 say-on-pay vote indicates that shareholders are generally supportive of Redwood s approach to executive compensation. This support was one of the factors the Committee took into account in not making material changes to Redwood s performance-based compensation philosophy for executive officers or the components of executive compensation in response to the 2011 say-on-pay vote. At Redwood s 2011 annual meeting of stockholders, shareholders also voted in favor of a proposal to hold say-on-pay votes every year. In the future, the Committee will continue to consider the outcome of the annual say-on-pay vote when making compensation decisions regarding executive officers.

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Overall Compensation Philosophy and Objectives

Redwood has adopted a performance-based compensation philosophy for its executive officers that seeks to provide incentives to achieve both short-term and long-term business objectives and ensure that Redwood can hire and retain talented individuals in a competitive marketplace. The Committee is generally responsible for evaluating Redwood s executive compensation programs, plans, and practices to ensure that they provide proper incentives and appropriately support corporate performance without creating risks that are likely to have a material adverse effect on Redwood.

Redwood s executive compensation objectives are as follows:

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

Components of Compensation in 2011

In 2011, as in past years, cash compensation for Redwood s NEOs included a base salary and a performance-based annual bonus. The annual bonus was primarily determined based on a company performance bonus formula, with individual performance a secondary determinant. Redwood seeks to have an executive compensation structure that awards annual bonus compensation upon achievement of performance targets. It is generally intended that the salary and annual bonus targets for each NEO be similar to a market-based benchmark of the median salary and target annual bonus compensation for each NEO. The market-based benchmarks used by the Committee for this purposes are determined with the assistance of the Committee s independent compensation consultant, Frederic W. Cook & Co., Inc. (Cook & Co.), by reviewing compensation practices of a peer group of companies consisting of companies with broadly similar size and complexity that are competitors for executive talent and capital, as well as through the review of other supplemental benchmarking data relating to certain NEO positions that was obtained by Redwood from McLagan, a third party compensation consultant that is nationally recognized as qualified to provide such data. The peer group of companies used by the Committee in 2011 for competitive benchmarking comparisons as well as other data used for benchmarking comparisons is further described below under Compensation Benchmarking for 2011.

The target level for Redwood s 2011 financial performance that was used in determining the component of 2011 annual bonuses based on company financial performance, was a 9% annual adjusted return on equity (Adjusted ROE). Adjusted ROE is a non-GAAP performance measure that is defined and described below under 2011 Performance-Based Annual Bonus Compensation. For annual Adjusted ROE performance above or below the target level, it is the intention that the compensation program results in total annual bonus compensation for NEOs that is above or below the benchmarked market median, as applicable. To a lesser degree, annual bonus compensation also varies as a function of individual executive performance.

With respect to long-term equity-based compensation, the Committee generally seeks to make regular annual awards to NEOs at levels that exceed a market-based benchmark of the median for such awards for each NEO, with market-based benchmarks determined in the same manner as described above with respect to salary and target annual bonus. These awards provide an incentive to create long-term stockholder value, encourage employment retention, and build executive ownership. In particular, for 2011 the value of the annual long-term equity-based compensation granted to NEOs was determined after taking into account the Committee s philosophy that:

depending on Redwood s company performance and each NEO s individual performance, for each NEO, the value of year-end long-term equity-based awards should approximate the 75^{th} percentile relative to the marked-based benchmark; and

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NEO compensation earned and realized from annual bonuses and long-term equity-based awards should correlate with long-term stockholder value creation through dividend distributions and share-price growth over, at a minimum, the vesting and mandatory holding periods determined by the Committee to be appropriate.

Determination of Compensation for 2011

Each year the Committee makes determinations regarding the compensation of Redwood s NEOs. For 2011, the NEOs consisted of the following individuals, who held the titles noted below as of December 31, 2011:

Mr. Martin S. Hughes, President & Chief Executive Officer
(Note: As of January 12, 2012, Mr. Hughes sole title is Chief Executive Officer)
Mr. Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President
(Note: As of January 12, 2012, Mr. Nicholas was promoted and his sole title is President)
Ms. Diane L. Merdian, Chief Financial Officer (Note: As previously announced, effective March 9, 2012, Ms. Merdian ceased employment with Redwood.)
Mr. Scott M. Chisholm, Managing Director
Mr. John H. Isbrandtsen, Managing Director

The process for determining NEO compensation is dynamic and compensation levels are evaluated throughout each year, with the Committee having the authority to re-examine and adjust any aspect of the compensation program or process it may determine to be necessary or appropriate to take into account changing circumstances throughout the year. As has been its practice for a number of years, for 2011 the Committee directly engaged and used the services of a nationally recognized independent compensation consultant, Cook & Co., to assist it in determining the elements of compensation and to provide benchmarking analyses. Cook & Co. does no other work for Redwood or its management and the Committee has the sole authority to establish and terminate the relationship with Cook & Co.

On an annual basis, Cook & Co. reviews the compensation program for Redwood s executive officers with the Committee and assesses the competitiveness of compensation levels and targets to evaluate whether the compensation program is aligned with Redwood s compensation philosophy. Cook & Co. also provides the Committee with data regarding compensation practices among Redwood s peer group and analyzes the compensation levels and targets of each NEO. The analysis prepared by Cook & Co. includes tally sheets that show total cash compensation for each NEO (and year-to-year comparisons of total cash compensation), total equity ownership in Redwood by each NEO (and the value of those equity stakes at different prices per share), and total compensation in cash and equity-based grants for each NEO. Cook & Co. s analysis assists the Committee in understanding the extent to which different components of each NEO s compensation are above or below the market-based benchmarked median (based on Redwood s peer group and on other supplemental benchmarking data) and in understanding the year-to-year changes in awarded, realized, accumulated, and potential NEO compensation.

In addition, Cook & Co. assists the Committee in determining the amounts, form, and structure of the compensation programs adopted by Redwood. Based on the Committee s judgment, and reflecting input from Cook & Co., the compensation package for each NEO consists of a fixed base salary, a variable performance-based annual bonus, and a long-term equity-based award, with a significant portion of compensation allocated to the variable annual bonus and the long-term equity-based components to appropriately align total executive compensation with Redwood s company performance and each NEO s individual performance. Each of these compensation elements is reviewed by the Committee annually with respect to each NEO.

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As part of its process for determining 2011 NEO compensation, the Committee considered the following recommendations:

Mr. Hughes and Mr. Nicholas provided the Committee with their performance evaluations and joint recommendations with respect to the compensation of all of the other NEOs, namely: Ms. Merdian, Mr. Chisholm, and Mr. Isbrandtsen; and

Cook & Co. provided general directional recommendations regarding the components of the compensation of Mr. Hughes, Mr. Nicholas, Ms. Merdian, Mr. Chisholm, and Mr. Isbrandtsen based on peer comparisons and other supplemental benchmarking data, which recommendations were based on Redwood s compensation philosophy, as described above.

In addition, on an annual basis, the Committee is provided with a self-assessment from each of the NEOs that addresses individual and collective performance over the prior year. The Committee reviewed these self-evaluations and took them into consideration when determining the level of compensation to be paid to each NEO for 2011.

In preparation for making determinations regarding 2011 compensation matters, beginning in August 2010 the Committee conducted a fundamental review of two particular aspects of the executive compensation program; namely, the methodology used for determining the company performance component of annual bonuses and the structure of long-term equity-based awards. This fundamental review was prompted by, among other things, the commitment made by the Committee in 2010 regarding the future use of performance-based equity awards, changes in the business and financial environment in which the company operates and competes, and changes in management leadership of Redwood following Mr. George E. Bull, III s retirement in May 2010 from the chief executive officer position. This review encompassed input from and consultation with management and Cook & Co., as well as input from other members of the Board of Directors.

As part of this review, the Committee, among other things, reviewed:

The general design of the compensation program, including the appropriateness of continuing to pay annual bonuses based in part on company financial performance and in part based on individual performance and the use of annual long-term equity-based compensation awards;

The appropriateness of continuing to use Adjusted ROE as the performance measure for the company performance component of annual bonuses and alternatives to this measure (such as, total rate of return to shareholders, dividend yield, earnings per share, change in book value, and ratio of price to book value);

Various performance thresholds for determining the company performance component of annual bonuses (including fixed/absolute thresholds, thresholds relative to the performance of a peer group, and thresholds relative to an index or other benchmark) and the relationship between these thresholds and Redwood s business model and competition;

The extent to which annual bonus amounts should be paid in cash or equity-based awards and the extent to which mandatory holding periods or hold-backs of annual bonus amounts are appropriate; and

Different methodologies for structuring performance-based equity awards, including:

Consideration of the use of various types of: performance measures (*e.g.*, return on equity, total rate of return to shareholders, change in book value, ratio of price to book value, and earnings per share); performance thresholds (*e.g.*, fixed/absolute thresholds, thresholds relative to the performance of a peer group, and thresholds relative to an index or other benchmark); and vesting periods (*e.g.*, cliff vesting and a multi-year period and pro-rata vesting over a multi-year period); and

The extent to which vesting leverage is appropriate (*i.e.*, the extent to which more or less than a target award amount would vest based on over- or under-performing established performance thresholds) and, if so, at what levels of performance such leverage was appropriate.

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With respect to each aspect of this review, the Committee considered, among other things, whether each alternative was consistent with Redwood s compensation philosophy, including whether each alternative would align the interests of Redwood s executives and employees with those of Redwood s long-term shareholders, motivate executives and employees to enhance the performance and profitability of Redwood both on a short-term and long-term basis (with an emphasis on the long-term), allow Redwood to continue to attract and retain highly qualified and productive executives and employees, and maintain a compensation program that was competitive with the marketplace. In addition, the Committee was focused on how the design of a compensation program can be a factor that could impact business risk taking and focused on whether the design of the compensation program would introduce material risks to Redwood. In conducting its review, the Committee was aware that the design of each aspect of its compensation program was part of a comprehensive whole, and therefore, that each element needed to be analyzed in the context of how it contributed to the whole program and how risks associated with one aspect of the program could be balanced by other aspects of the program.

As a result of this process, during this annual review, not only did the Committee make certain determinations of the type it has traditionally made each year, such as determining base salary levels and target annual bonus amounts, but it also determined to make certain changes to aspects of the executive compensation program that had previously remained constant for several years. For example, the Committee established a performance measure, performance thresholds, and other terms for long-term equity-based awards with performance-based vesting (*i.e.*, the performance stock units referred to below under 2011 Long-Term Equity-Based Awards). In addition, the Committee determined that it would change the financial performance thresholds used in determining the company performance component of annual bonuses for 2011. Certain of these changes were implemented immediately (*e.g.*, performance stock units were used in making 2010 year-end long-term equity-based awards), while it was determined to implement other changes (including changes to the performance thresholds used in determining the company performance component of annual bonuses) over the course of 2011 and 2012.

Compensation Benchmarking for 2011

As in prior years, in 2011 the Committee asked Cook & Co. to conduct a market pay analysis with respect to various compensation matters, including compensation of NEOs. Cook & Co. s market pay analysis relied in part on publicly disclosed executive compensation data from a group of peer companies and, due to the fact that not all of the peer group companies publicly disclose executive compensation information for officers with responsibilities comparable to some of Redwood s NEOs, in part on supplemental data relating to certain NEO positions that was obtained from McLagan, a third party compensation consultant that is nationally recognized as qualified to provide such data. Redwood also uses data and consulting services from McLagan and its affiliates, including for determining compensation for other executive officers and employees who are not executive officers.

The Committee considers the use of market-based compensation analysis, including analysis of a peer group of companies, important for competitive positioning in attracting and retaining executive talent. In considering the market analysis provided by Cook & Co., the Committee recognized that the peer group did not include generally higher-paying externally-managed REITs, private equity firms, and hedge funds with which Redwood must compete for executive talent. Cook & Co. did not include those organizations in the peer group because they have different business economics and pay models than Redwood.

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

Both a core and secondary peer group should be designated and included in the analysis, with the core peer group to include internally managed mortgage REITs with which Redwood directly competes for business, capital, and executive talent and the secondary peer group to include a broader set of similar-sized companies in related industries with which Redwood may compete for capital and executive talent, but which Redwood does not necessarily compete directly with for business.

Base salaries and target annual bonuses should continue to be oriented at or near the market-based benchmark for median target levels of these components of compensation.

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Performance-based bonuses should have adequate upside opportunity so that delivered total annual compensation may potentially reach the top-quartile of the market-based benchmark for this component of compensation for strong Redwood performance.
Competitive pressure from higher-paying related market sectors should be addressed by making long-term equity-based awards with values that approximate the 75th percentile of the market-based benchmark for this component of compensation.
The core peer group of companies used by the Committee in 2011 consisted of: Annaly Capital Management, Inc., Anworth Mortgage Asset Corporation, Capstead Mortgage Corporation, MFA Financial, Inc., Northstar Realty Finance Corporation, and RAIT Financial Trust. Each of these companies was also included in the peer group of companies the Committee designated in 2010 for purposes of the market pay analysis conducted by Cook & Co. s for the Committee for 2010 executive compensation. The secondary peer group of companies used by the Committee in 2011 consisted of: AllianceBernstein Holding L.P., Altisource Portfolio Solutions S.A., Artio Global Investors Inc., CBOE Holdings, Inc., Cohen & Steers, Inc., Credit Acceptance Corporation, Encore Capital Group, Inc., Financial Engines, Inc., Janus Capital Group, Inc., Knight Capital Group, Inc., Nelnet, Inc., PHH Corporation, Portfolio Recovery Associates, Inc., W.P. Carey & Co. LLC, and World Acceptance Corporation.

The Committee reviews the list of peer companies on an annual basis to confirm that they continue to meet the Committee s criteria for inclusion. The Committee also takes into consideration changes in real estate and capital markets and changes in competitors. Accordingly, the companies included as peers may change from year to year as a result of this review.

2011 Base Salaries

Base salary is a traditional component of executive compensation. Redwood seeks to establish base salaries for NEOs by reference to a market-based benchmarked median for similar executives and groups of similar executives. The Committee reviews base salaries as one part of overall compensation for the NEOs annually. The Committee may make adjustments to base salary in connection with this annual review or at other times based on the executive s experience and responsibilities and after consideration of other components of compensation and consideration of the competitive levels necessary for executive retention.

In December 2010, the Committee determined that the 2011 base salaries for each of the NEOs would remain unchanged from their year-end 2010 base salary levels.

As a result, for 2011:

the salary for Mr. Hughes remained at its year-end 2010 level of $700,000;
the salary for Mr. Nicholas remained at its 2007 level of $500,000;
the salary for Ms. Merdian remained at its 2010 level of $400,000;
the salary for Mr. Chisholm remained at its 2009 level of $400,000; and
the salary for Mr. Isbrandtsen remained at its 2010 level of $400,000.

2011 Performance-Based Annual Bonus Compensation

Redwood s compensation program is designed to reward NEOs based on Redwood s financial performance and each NEO s individual performance, including his or her contribution to Redwood s performance. As an integral part of this program, each NEO can earn an annual bonus based on the Committee s review of the satisfaction of a specific pre-established target level of Redwood financial performance and specific individual performance measures.

In order to align the interests of Redwood s NEOs with the interests of its long-term stockholders, the Committee determined during the first quarter of 2011, after consultation with Cook & Co., that 2011 target annual bonuses for NEOs would continued to be weighted:

75% on the achievement of a predetermined target level of company financial performance, with this component of bonus compensation being referred to as the company performance component of target bonus or company performance bonus; and

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25% on the achievement of pre-established individual goals, with this component of bonus compensation being referred to as the individual performance component of target bonus or individual performance bonus.

This weighting has been used so that most of an NEO s target annual bonus will depend directly on the achievement of the target level of company financial performance, while also providing incentives for achievement of individual goals that the Committee believes are in the interests of Redwood and its stockholders, but which may be difficult to quantitatively link directly to company financial performance. The Committee also determined that the individual performance component of the bonus could be earned up to 100% of the individual performance component of target annual bonus, subject to adjustment when circumstances warrant at the discretion of the Committee.

Also during the first quarter of 2011, after consultation with Cook & Co. and completion of the review of Redwood s compensation program described above and below, the Committee determined to continue to use in 2011 the same financial metric to underlie the company performance bonus formula that was used for that purpose in 2010 and to use in 2011 the specific financial performance thresholds described below. As noted above, the company performance bonus formula is based on Adjusted ROE, which is defined as income determined in accordance with GAAP divided by average core equity, subject to adjustment when circumstances warrant at the discretion of the Committee. Average core equity is defined as average GAAP equity excluding unrealized mark-to-market adjustments as reflected in accumulated other comprehensive income (loss). The Committee believes that Adjusted ROE generally provides an appropriate measurement of Redwood s financial performance because, as a company whose primary source of earnings is income from real estate-related debt investments, the use of average core equity reflects the amount of capital Redwood has to invest (as it excludes the effect of unrealized market valuation adjustments).

During the second half of 2010 and the first quarter of 2011, the Committee undertook a review of Redwood s compensation program, including a review of the formula used in determining the company performance component of annual bonuses for executive officers. This review included a review of the metric used to measure company financial performance and the company financial performance levels, or thresholds, at which company performance bonus will be paid at target levels, as well as a review of the company financial performance threshold below which no company performance bonus would be paid, and the company performance bonuses that would be paid for various levels of company financial performance above and below target performance. This review encompassed input from and consultation with management and Cook & Co., as well as input from other members of the Board of Directors.

The Committee decided, as a result of its review, to change its methodology for determining the performance thresholds at which different levels of company performance bonuses would be paid. In particular, the Committee decided to discontinue the use of the fixed performance thresholds that had been used in prior years and replace them with variable performance thresholds that could change each year, with the variable performance thresholds to be determined at the beginning of each year in an amount equal to a risk-free interest rate plus an incremental premium. As a result, the performance thresholds could vary from year to year both as the result of changes in the risk-free rate and changes to the incremental premium determined by the Committee to be appropriate. This decision was premised in large part on the nature of Redwood s business model, which is primarily focused on investing in real-estate related debt instruments. One result of this business model is that returns that Redwood can earn on new investments are, to an extent, correlated with the market-driven interest rates being offered for these and other types of debt instruments (which rates depend on the perceived risk of these investments) which, in turn, are correlated to a certain extent with the market-driven risk-free interest rates being offered for investment in U.S. Treasury obligations (and other debt backed by the full faith and credit of the U.S.).

Over the several years preceding 2011, Redwood s financial performance thresholds were as follows for executive officers: no company performance bonus would be earned for Adjusted ROE below 7%; target company performance bonus would be earned when Adjusted ROE was 11%; and above-target company performance bonuses would be earned when Adjusted ROE was greater than 11%. In reviewing each of Redwood s first eight years as a public company (1995 2002), the prior-year risk-free interest rate for U.S. Treasury obligations with a five year maturity remained relatively constant, with an average of 5.8% during

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that period. As a result, the target company performance threshold of an 11% Adjusted ROE that was used during this period in determining the company performance component of annual NEO bonuses reflected an average premium of 5.2% above the prior year risk-free rate for U.S. Treasury obligations with a five year maturity. Over the few years immediately subsequent to 2002, this risk-free rate dipped and then increased again. Then, beginning in 2008, the prior year risk-free rates on U.S. Treasury obligations with a five year maturity have declined to average levels significantly below the average for the prior decade. A five-year risk-free interest rate was used for this analysis because it generally corresponds to the weighted average duration of investments historically made by Redwood.

As a result of this recent significant decline in risk-free interest rates, maintaining a target level of company performance of 11% Adjusted ROE would require that Redwood seek returns much higher above the risk-free rate than it had in the past in order to achieve target company performance. Conversely, if risk-free interest rates were to rise significantly in future years, as some believe they may, maintaining a target level of company performance of 11% Adjusted ROE, would require that Redwood seek much lower incremental returns above the risk-free rate than it had in the past in order to achieve target company performance. The Committee was mindful that Redwood does not currently intend to significantly alter its business model. In addition, the Committee recognized that reaching for the same returns in a lower interest environment would necessitate taking greater investment or other risks and that accomplishing the same returns in a higher interest rate environment would only require seeking lower risk, lower yielding investments. Therefore, the Committee determined that as Redwood made new investments in the future, the target level of Redwood s company performance should be structured to vary along with varying risk-free rates.

Setting a target Adjusted ROE performance threshold at an appropriate level above the risk-free rate is intended to provide executives with an incentive to achieve attractive investment returns for Redwood (and align the interests of executives and shareholders in seeking this level of return), without exposing Redwood to inappropriate risk. If interest rates return to a prolonged period of stability, the variable performance target will likely not vary significantly from year-to-year, and will effectively function much like the fixed performance target did in the past. Alternatively, if interest rates experience significant periods of volatility in the future or experience long-term upward or downwards trends, the variable performance target will provide the Committee with the ability to adjust compensation incentives in a manner consistent with a stable business model.

The Committee recognized that implementing a change from a fixed target of 11% to a variable target was significant and believed it should be done deliberately and over a time period that would allow for observation of the impact of the change and an opportunity to make any necessary adjustments. Accordingly, the Committee determined to fully implement this change in 2012 and to treat 2011 as a transition year, during which much of the change would be implemented, but certain aspects of the design of the company performance bonus formula would remain consistent with 2010 and prior years.

Based on the comprehensive review of the Company performance bonus metric and performance thresholds, and after consultation with Cook & Co., the Committee made the following determinations with respect to company performance bonuses for NEOs for 2011, which, as noted above, was intended to be the year during which Redwood transitions from the fixed performance threshold methodology used in 2010 and prior years to the variable performance threshold methodology to be used in 2012 and currently intended to be used in years subsequent to 2012:

The target performance threshold (*i.e.*, the level of company performance at which the target company performance bonus would be paid) for 2011 would be Adjusted ROE equal to a risk-free rate of 3% plus an incremental premium of 6%.
The use of a 3% risk-free rate for 2011 represents a transition year determination to use a risk-free rate that is higher (*i.e.*, more difficult to achieve) than the risk-free rate of approximately 2% that would otherwise have resulted from the use of the average interest rate during 2010 for five-year U.S. Treasury obligations.

The use of a 6% incremental premium for 2011 was intended to provide executives with an incentive to achieve attractive investment returns for Redwood (and align the interests of executives and shareholders in seeking this level of return), without exposing Redwood to inappropriate risk.
No company performance bonus would be paid for 2011 if Adjusted ROE was 2% less (or lower) than the target performance threshold (*i.e.*, no company performance bonus would be paid if Adjusted ROE is 7% or less).
The use of an initial performance threshold of 2% less (or lower) than the target performance threshold for 2011 represents a transition year determination that the minimum level of Adjusted ROE necessary for the payment of any company performance bonus should remain consistent with the level required in 2010 (*i.e.*, remain at 7%).
Company performance bonuses for 2011 in excess of the target for those bonus amounts would not be paid unless Adjusted ROE was more than 2% above the target performance threshold (*i.e.*, until Adjusted ROE is more than 11%).
The use of a performance threshold for above-target company performance bonuses of 2% above the target performance threshold for 2011 represents a transition year determination that the minimum level of Adjusted ROE necessary for the payment of any above-target company performance bonus should remain consistent with the level required in 2010 (*i.e.*, remain at 11%).
As noted below, each NEO was subject to a maximum total bonus for 2011.
Any 2011 Company performance bonus amount that exceeds the amount that would have been paid for the same Adjusted ROE performance under the 2010 company performance bonus formula, would be paid in vested deferred stock units (DSUs) with a mandatory three-year holding period.
The use of vested DSUs with a mandatory three-year holding period to pay any 2011 company performance bonus amount that exceeds the amount that would have been paid for the same Adjusted ROE performance under the 2010 company performance bonus formula represents a transition year determination that the change to the company performance bonus formula for the 2011 transition year should not result in higher cash bonus payments to NEOs than would have been made under the formula in place for 2010.
As a result of the Committee s decisions, including those described above, the company performance bonus formula for use in 2011 for NEOs was as follows:

For Adjusted ROE of less than or equal to 7%, no company performance bonus would be paid;
For Adjusted ROE between 7% and 9%, the company performance bonus would be pro-rated between 0% and 100% of the target company performance bonus;
For Adjusted ROE between 9% and 11%, 100% of target company performance bonus would be paid; and
For Adjusted ROE in excess of 11%, the company performance bonus would be increased by an amount such that the total target bonus would increase by one-third for every 1% increase in Adjusted ROE above 11%, subject to the maximum total bonus amounts described below.
Because total bonus is used in the formula described in the immediately preceding bullet point, solely for the purpose of calculating the increase in company performance bonus in accordance with the described formula, an individual performance bonus equal to 100% of the target for the individual performance bonus is assumed (although it would not affect the calculation of his or her company performance bonus, an executive officer may, in fact, be awarded an individual performance bonus of more or less than 100% of the target for his or her individual performance bonus).

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Using a formula for 2011 that results in a pro-rated portion of the company performance bonus being earned for Adjusted ROE between 7% and 9% was determined as appropriate by the Committee to reward good financial performance below the target level; and continuing to maintain a formula for 2011 that results in a company performance bonus in excess of target for Adjusted ROE above 11% was determined as appropriate by the Committee to reward financial performance that exceeded the target threshold.

In addition, in November 2010, the Committee determined, after discussion with Cook & Co., that the target bonus percentages (which are percentages of base salary) for 2011 for Mr. Hughes, Mr. Nicholas, Mr. Chisholm, and Mr. Isbrandtsen would remain the same as the percentages in place with respect to each of them as of year-end 2010 and that Ms. Merdian s target bonus percentage for 2011 would be increased from 75% of her base salary to 100% of her base salary to respond to an increase in the market-based benchmark for her position.

The Committee also determined during the first quarter of 2011 that individual performance in 2011 for each NEO would be reviewed in the context of, among other things, the specific pre-determined goals and factors discussed below under Performance-Based Annual Bonuses Paid for 2011 Individual Performance Component of Annual Bonuses Awarded for 2011. As in past years, during 2011 these individual factors and goals were subject to adjustment if circumstances warranted, at the discretion of the Committee.

The Committee also established that the maximum annual bonus (*i.e.*, the maximum sum of the two components of the annual bonus) in 2011 would continue to be $5 million for each of Mr. Hughes and Mr. Nicholas and $2 million for each of the other NEOs. These maximum amounts were determined after consultation with Cook & Co., and were considered appropriate by the Committee as maximum total annual bonuses for each of these NEOs based on their position, responsibilities, level of performance needed to reach the maximum, and competitive considerations.

The table below sets forth the 2011 target annual bonuses that were established for each NEO assuming achievement of the criteria necessary to achieve 100% of the target annual bonus, together with the company performance and individual performance components of these target annual bonus amounts.

NEO	2011 Base Salary	2011 Target Annual Bonus (as % of Base Salary)	Company Performance Component of 2011 Target Annual Bonus ($)	Individual Performance Component of 2011 Target Annual Bonus ($)	Total 2011 Target Annual Bonus ($)
Mr. Hughes	$ 700,000	165 %	$ 866,250	$ 288,750	$ 1,155,000
Mr. Nicholas	$ 500,000	150 %	$ 562,500	$ 187,500	$ 750,000
Ms. Merdian	$ 400,000	100 %	$ 300,000	$ 100,000	$ 400,000
Mr. Chisholm	$ 400,000	100 %	$ 300,000	$ 100,000	$ 400,000
Mr. Isbrandtsen	$ 400,000	100 %	$ 300,000	$ 100,000	$ 400,000

Form of Payment of 2011 Performance-Based Annual Bonuses.

At its meeting in March 2011, the Committee also decided, after consultation with Cook & Co., that performance-based annual bonuses paid to NEOs for 2011 that exceeded $250,000 would not be paid fully in cash, but would instead be paid in part in the form of vested DSUs with a mandatory three-year holding period. Payment for annual bonus amounts in this manner exposes a greater portion of NEOs annual bonuses to the future financial performance of Redwood, which the Committee believes results in a greater alignment of executive and stockholder interests.

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The following table sets forth the step function that determines the amount of any NEO s 2011 annual bonus that would be paid in the form of vested DSUs with a mandatory three-year holding period and illustrates that, as the value of an NEO s annual bonus increases, an increasingly smaller percentage of that bonus is paid in cash.

Incremental Annual Bonus Amount ($)			Form of Payment of Incremental Annual Bonus Amount	
			Cash	DSUs[1]
$	to	$ 250,000	100 %	0 %
$ 250,000	to	$ 500,000	60 %	40 %
$ 500,000	to	$ 1,000,000	55 %	45 %
$ 1,000,000	to	$ 1,500,000	50 %	50 %
$ 1,500,000	to	$ 2,000,000	45 %	55 %
$ 2,000,000	to	$ 5,000,000	40 %	60 %

(1) As noted above, these DSUs would be vested at grant, but subject to a mandatory three-year holding period.

Performance-Based Annual Bonuses Paid for 2011

In 2011, the Company s Adjusted ROE was 2.8%, which was below the initial performance threshold of 7% Adjusted ROE established by the Committee for 2011, as described above under 2011 Performance-Based Annual Bonus Compensation. As a result, no company performance component of performance-based annual bonuses was paid to NEOs for 2011 and performance-based annual bonuses for NEOs for 2011 consisted solely of the individual performance component of annual bonuses. A further discussion of the Committee s process for determining each of these components is set forth below.

As described above, Adjusted ROE is defined as income determined in accordance with GAAP divided by average core equity. Average core equity is defined as average GAAP equity excluding unrealized mark-to-market adjustments as reflected in accumulated other comprehensive income (loss).

Company Performance Component of 2011 Annual Bonuses. Under the company performance bonus formula that was established by the Committee at the beginning of 2011, which is described above under 2011 Performance-Based Annual Bonus Compensation, Adjusted ROE for 2011 was 2.8%, which was below the initial performance threshold of 7% Adjusted ROE established by the Committee for 2011. Accordingly, no company performance component of annual bonuses was paid to any NEO for 2011. The table below shows the target amount of this component of annual bonus for each NEO for 2011 and also indicates, as noted above, that none of those target amounts were paid.

NEO	Company Performance Component of 2011 Target Annual Bonus ($)	% of Company Performance Component Paid	2011 Company Performance Component of Annual Bonus Paid ($)
Mr. Hughes	$ 866,250	0 %	$ 0
Mr. Nicholas	$ 562,500	0 %	$ 0
Ms. Merdian	$ 300,000	0 %	$ 0
Mr. Chisholm	$ 300,000	0 %	$ 0

Mr. Isbrandtsen	$ 300,000	0 %	$ 0

Individual Performance Component of 2011 Annual Bonuses. For 2011, the individual performance components of annual bonuses were determined after a review of the individual achievements of each NEO and his or her individual contribution to the collective achievements of the senior management team, as well as a review of competitive considerations. The Committee s review of individual performance included a review of each NEO s self-assessment, the joint assessment by Mr. Hughes and Mr. Nicholas of the other NEOs (all of whom report directly to them), and input from Cook & Co. Among other factors, the Committee considered each of the company-wide goals noted below that the Committee had previously determined would be reviewed in assessing individual performance for 2011. With respect to each of these goals, the Committee noted various factors in evaluating the level of attainment of the goal and each NEO s contribution to achieving the goal, including the principal factors described below and the related level of attainment

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(presented in italics after each listed factor). In considering these goals and factors, the Committee did not assign specific weightings to each factor and goal, but instead considered them together as part of a comprehensive review.

Goal: Expand Redwood s Sequoia securitization platform *the Committee evaluated achievement of this goal in the context of various factors, including that during 2011 Redwood executed the only two private-sector securitizations of newly originated residential mortgages, Redwood entered into master loan purchase agreements with more than twenty residential mortgage originators through which Redwood can acquire mortgage loans for securitization, Redwood established contractual relationships with mortgage loan servicers that enable it to acquire mortgage loans from originators that do not service securitized loans, and Redwood improved its operational and information-technology infrastructure to enable it to further scale its securitization platform.*

Goal: Appropriately manage Redwood s securities investments and associated risks *the Committee evaluated achievement of this goal in the context of various factors, including that during 2011 Redwood was able to acquire $129 million of residential mortgage-backed securities issued by third parties for its investment portfolio, Redwood executed a re-securitization transaction in July 2011 to permanently finance a portfolio of these securities, and, through appropriate management reporting, Redwood consistently monitored the risk profile of its securities investments.*

Goal: Develop Redwood s commercial real estate lending platform *the Committee evaluated achievement of this goal in the context of various factors, including that during 2011 Redwood s commercial real estate lending platform become a recognized lender in the marketplace, established relationships with first mortgage lenders that will enhance its platform, established a significant number of correspondent/broker relationships, and originated a portfolio of $128 million of mezzanine loans and investments.*

Goal: Be recognized as a leader in re-establishing the residential mortgage securitization market *the Committee evaluated achievement of this goal in the context of various factors, including that during 2011 Redwood s residential mortgage securitization transactions were recognized as establishing new standards for the industry and marketplace, Redwood executives met regularly with Federal policymakers regarding mortgage finance and securitization reforms and initiatives, Redwood s Chief Executive Officer provided input on regulatory and market reforms through testimony to Congressional and Senate Committees or Sub-Committees on four separate occasions, and Redwood provided commentary and input on various regulatory initiatives and business initiatives of Federal policymakers and government-sponsored enterprises relating to housing finance and securitization reform.*

Goal: Manage operations and expenses appropriately *the Committee evaluated achievement of this goal in the context of various factors, including that during 2011 Redwood s operations were carried out efficiently and additional operational resources were added only as expected to respond to increased business activity and operational expense was managed well and overall operational expense of $48 million was in-line with budgeted amounts.*

Based on the above-described review of each NEO s individual achievements and their contribution to the collective achievements of the executive team, the Committee determined the individual performance component of annual bonuses for each NEO for 2011, each of which is set forth in the table below, together with the target amount of such component and the percentage of that target amount that was paid (or, in the case of a portion of Mr. Hughes 2011 individual performance bonus, granted in the form of deferred stock units) on February 28, 2012.

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NEO	Individual Performance Component of 2011 Target Annual Bonus ($)	% of Individual Performance Component Paid/ Granted	2011 Individual Performance Component of Annual Bonus Paid/Granted ($)
Mr. Hughes	$ 288,750	100 %	$ 288,750 (1)
Mr. Nicholas	$ 187,500	100 %	$ 187,500
Ms. Merdian	$ 100,000	100 %	$ 100,000
Mr. Chisholm	$ 100,000	150 %	$ 150,000
Mr. Isbrandtsen	$ 100,000	100 %	$ 100,000

(1) In accordance with the step function described above under Form of Payment of 2011 Performance-Based Annual Bonuses, $15,500 of Mr. Hughes 2011 individual performance component of annual bonus was delivered in the form of a grant of vested DSUs with a mandatory three-year holding period.

2011 Long-Term Equity-Based Awards

As discussed above, equity ownership in Redwood provides an important linkage between the interests of stockholders and executives by rewarding long-term stockholder value creation. To meet this objective, officers, directors, key employees, and other persons expected to contribute to the management, growth, and profitability of Redwood are eligible to receive long-term equity-based awards. The Committee, in consultation with Cook & Co., determines guidelines and procedures for the issuance of those awards to NEOs. Awards are made based upon a number of factors, including the NEO s position, responsibilities, and total compensation level, individual and Redwood financial performance, and market-based benchmarks for each NEO. The Committee also takes into consideration past awards and outstanding awards.

The Committee s normal practice is to make long-term equity-based awards to the NEOs (and to other executives and employees) at the regularly scheduled fourth quarter meeting of the Committee (which for 2011 occurred on December 7, 2011). The date of this meeting was determined more than six months in advance as part of the normal process for scheduling Board of Directors and Committee meetings. On December 7, 2011, the Compensation Committee made 2011 year-end long-term equity-based awards to NEOs in two forms: 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. The shares of Redwood common stock underlying these DSUs will be distributed to the award recipients on May 1, 2016, unless distribution is electively deferred by a recipient under the terms of Redwood s Executive Deferred Compensation Plan. The number of DSUs granted to each NEO was determined based on a dollar amount for each award divided by the closing price of the Redwood s common stock on the NYSE on the trading day immediately prior to grant.

The terms of the DSUs granted on December 7, 2011 are generally consistent with the terms of the 2010 long-term equity-based awards made to NEOs in November 2010 and are established under a deferred stock unit award agreement and Redwood s 2002 Incentive Plan, which terms include provisions relating to dividend equivalent rights, forfeiture, mandatory net settlement for income tax withholding purposes, and change-in-control.

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The PSUs granted on December 7, 2011 are performance-based equity awards under which the number of underlying shares of Redwood common stock that vest and that the award 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 Redwood 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 cumulative (not annualized) total stockholder return (TSR), as follows:

- If three-year cumulative TSR is negative, then 0% of the PSUs will vest;
- If three-year cumulative TSR is 25%, then 100% of the PSUs will vest;

If three-year cumulative 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;

- If three-year cumulative TSR is greater than or equal to 125%, then 200% of the PSUs will vest; and

If three-year cumulative 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, (i) three-year cumulative 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 (which was $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 Redwood common stock during such three-year period were reinvested in Redwood common stock on the applicable dividend payment dates, and (ii) Per Share Price is defined, as of any date, as the average of the closing prices of a share of Redwood common stock on the NYSE during the twenty (20) consecutive trading days ending on the trading day prior to such date. The TSR performance thresholds for determining whether 0%, 100%, or 200% (or some other percentage in between those levels) of the underlying shares of Redwood common stock will vest were determined by the Committee based on a 25% cumulative TSR over three years being an attractive level of total stockholder return for investors, with the minimum and maximum vesting thresholds also reflecting an appropriate level of vesting for the related level of cumulative TSR over the three year period.

Subject to vesting, the shares of Redwood 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 Redwood s Executive Deferred Compensation Plan. Prior to vesting, no dividend equivalent rights are paid in respect of PSUs. 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 Redwood common stock that a stockholder would have acquired during the three-year TSR measurement period had all dividends during that period been reinvested in Redwood common stock on the applicable dividend payment dates. After the vesting of these PSUs in December 2014 (if any vest) and until the delivery of the underlying shares of Redwood common stock, the underlying vested award shares will have attached dividend equivalent rights, resulting in the payment of dividend equivalents each time Redwood pays a common stock dividend during that period.

The terms of the PSUs granted on December 7, 2011 are established under a performance stock unit award agreement and Redwood s 2002 Incentive Plan, which terms include provisions relating to forfeiture, mandatory net settlement for income tax withholding purposes, and change-in-control.

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An example of how vesting of the PSUs granted on December 7, 2011 could occur is set forth in the bullet points below:

Assume for purposes of this example that a recipient had received a PSU grant on December 7, 2011 with a target number of 10,000 PSUs and that the Per Share Price as of December 6, 2014 was $10.30 (*i.e.*, unchanged from the Per Share Price on the grant date of the PSUs); and
Assume for purposes of this example that a quarterly dividend of $0.25 per share of Redwood common stock was maintained over the three-year vesting period for these PSUs and that the price for Redwood common stock on each dividend payment date during this period was $10.30.

Under the above assumptions, three-year cumulative TSR over the three-year vesting period would be 29.13%, with the result that 13,886 underlying shares of Redwood common stock would vest on December 6, 2014. The calculation of the vesting of underlying shares is set forth in the following two bullet points:

as noted above, dividends paid during the vesting period would be reflected by adjusting the target number of PSUs granted by an amount corresponding to the incremental number of shares of Redwood common stock that would have been acquired during the vesting period had all such dividends been reinvested in additional shares on the applicable dividend payment dates (*i.e.*, the target number of PSUs granted in this example would be adjusted by 3,335 (from 10,000 to 13,335)); and
based on a 29.13% three-year cumulative TSR, 104.13% of the adjusted 13,335 target number of PSUs granted would vest (*i.e.*, 13,886 underlying shares of Redwood common stock would vest on December 6, 2014).

The long-term equity-based awards granted to NEOs in the fourth quarter of 2011 were determined by the Committee after receiving input from Cook & Co., with each award being determined based on the Committee s philosophy that the grant date value of these long-term equity-based awards should approximate the 75th percentile relative to the marked-based benchmark for this component of compensation. The 2011 long-term equity-based awards granted to NEOs are consistent with the Committee s performance-based compensation philosophy and the Committee believes that the awards reinforce the linkage between the interests of Redwood s NEOs and its long-term stockholders by encouraging ownership of Redwood stock by executives and rewarding stockholder value creation.

The number and grant date fair value of DSUs and PSUs comprising the 2011 long-term equity-based awards granted to each NEO are set forth in the table below:

	Deferred Stock Units		Performance Stock Units	
NEO[1]	#	Aggregate Grant Date Fair Value[1]	#	Aggregate Grant Date Fair Value[2]
Mr. Hughes	108,055	$ 1,137,819	108,055	$ 1,062,181
Mr. Nicholas	77,358	$ 814,580	77,358	$ 760,429
Ms. Merdian	27,014	$ 284,457	27,014	$ 265,548
Mr. Chisholm	34,381	$ 362,032	34,381	$ 337,965
Mr. Isbrandtsen	29,470	$ 310,319	29,470	$ 289,690

(1) Redwood s NEOs for 2011 account for five of the 77 employees of Redwood as of December 31, 2011.
(2) Determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made.

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DSUs awarded in 2011 have attached dividend equivalent rights, resulting in the payment of dividend equivalents each time Redwood pays a common stock dividend. The value of dividend equivalent rights was taken into account in establishing the grant date fair value of these DSUs under FASB Accounting Standards Codification Topic 718 at the time the awards were granted. Therefore, current dividend equivalent right payments are not considered part of the compensation reported above in the table of non-employee director compensation under Director Compensation or below in the summary table of NEO compensation under Executive Compensation Tables Summary Compensation.

Mandatory Holding Periods for 2011 Long-Term Equity-Based Awards

DSUs Granted in December 2011. The long-term equity-based awards granted to NEOs in December 2011 that were in the form of DSUs have the four-year vesting schedule described above under 2011 Long-Term Equity-Based Awards. Notwithstanding this vesting schedule, the NEOs are subject to a mandatory holding period with respect to all shares underlying the DSU awards made in December 2011 that vest prior to the distribution date. Consequently, assuming continued employment of the NEOs receiving those awards, the earliest these DSU awards will be distributed to recipients in shares of Redwood common stock (and, as a result, the earliest these shares could be sold or transferred) is May 1, 2016.

PSUs Granted in December 2011. The long-term equity grants made to NEOs in December 2011 that were in the form of PSUs have the three-year cliff vesting schedule described above under 2011 Long-Term Equity-Based Awards. Notwithstanding this vesting schedule, the NEOs are subject to a mandatory holding period with respect to all shares underlying the PSU awards made in December 2011 that vest prior to the distribution date. Consequently, assuming continued employment of the NEOs receiving these awards, if any of these PSUs vest, the earliest these PSUs will be distributed to recipients in shares of Redwood common stock (and, as a result, the earliest these shares could be sold or transferred) is May 1, 2015.

DSUs Granted in February 2012. As previously noted, in accordance with the step function described above under Form of Payment of 2011 Performance-Based Annual Bonuses, $15,500 of Mr. Hughes 2011 annual bonus was paid in the form of vested DSUs with a mandatory three-year holding period. Consequently, the earliest these DSU awards will be distributed to Mr. Hughes in shares of Redwood common stock (and, as a result, the earliest these shares could be sold or transferred) is May 1, 2015.

Executive Stock Ownership Guidelines; Hedging of Shares Held by Executives Not Permitted

As described on page 7 of this Proxy Statement, the Committee has established executive stock ownership guidelines with respect to Redwood s executive officers. These guidelines are summarized below and the Committee believes that they reinforce the linkage between the interests of Redwood s executives and its long-term stockholders by requiring ownership of Redwood stock by executives and rewarding stockholder value creation.

Each executive officer is required to own stock with a value at least equal to (i) five times current salary for the Chief Executive Officer, (ii) three times current salary for the President, and (iii) two times current salary for the other executive officers;

Three years are allowed to initially attain the required level of ownership and three years are allowed to acquire additional incremental shares if promoted to a position with a higher guideline (if not in compliance at the indicated times, then the executive officer is required to retain net after-tax shares delivered as compensation or from the Executive Deferred Compensation Plan until compliance is achieved); and

All shares owned outright are counted, including those held in trust for the executive officer and his or her immediate family, as well as vested DSUs and any other vested shares held pursuant to other employee plans.

For purposes of determining compliance, the original purchase or acquisition price is used as the value of shares held and, as of the date of this Proxy Statement, all of Redwood s executive officers were in compliance with these guidelines either because he or she owned the requisite number of shares or because he or she was within the time period during which the executive is permitted to attain the required level of ownership.

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In addition, under Redwood s Insider Trading Policy, Redwood s executive officers may not engage in any of the following hedging or other transactions with respect to their ownership of Redwood common stock, each of which the Committee believes would be inconsistent with the purposes and intent of the executive stock ownership guidelines:

Prohibition on Short Sales of Redwood Securities. Engaging in a short sale of common stock or other securities issued by Redwood is not permitted.

Prohibition on Use of Publicly-Traded Options and Derivatives or Other Transactions for Hedging Ownership of Redwood Securities. Transactions in publicly traded options or derivatives that reference Redwood s common stock or other Redwood securities are not permitted. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are not permitted. Similarly, hedging or monetization transactions are not permitted.

Compensation Determinations Relating to 2012

In accordance with its normal practice, at meetings in December 2011, January 2012, and March 2012, the Committee made certain decisions relating to NEO compensation for 2012, as further described below.

2012 Base Salaries. In accordance with its above-described policy and practice relating to establishing base salaries (see 2011 Base Salaries above), the Committee reviewed the base salaries of the NEOs for 2012. This review was made after consultation with Cook & Co. and after review of the marked-based benchmark for this component of compensation, analysis of the type described above under Compensation Benchmarking for 2011, and consideration of the competitive levels necessary for executive retention. As a result of this review, for 2012:

- the salary for Mr. Hughes remained at its year-end 2010 level of $700,000;
- the salary for Mr. Nicholas remained at its 2007 level of $500,000;
- the salary for Ms. Merdian remained at its 2010 level of $400,000;
- the salary for Mr. Chisholm was increased to $475,000 from its 2011 level of $400,000; and
- the salary for Mr. Isbrandtsen remained at its 2010 level of $400,000.

The Committee retains the discretion to make adjustments to these base salaries prior to its annual year-end review in December 2012, although it does not currently contemplate any such intra-year adjustments.

2012 Targets for Performance-Based Annual Bonuses. The Committee also made two determinations regarding 2012 targets for performance-based annual bonuses for NEOs. First, the Committee determined, after consultation with Cook & Co., that 2012 target annual bonuses for each of these NEOs would continue to be weighted 75% on Redwood company performance (*i.e.*, Adjusted ROE) and 25% on individual performance metrics. Second, in accordance with its above-described policy and practice relating to establishing target annual bonuses (see 2011 Performance-Based Annual Bonus Compensation above), and after consultation with Cook & Co. and consideration of the competitive levels necessary for executive retention, the Committee determined 2012 target annual bonus amounts for each of the NEOs, which target amounts are expressed as a percentage of base salary.

The table below sets forth the 2012 target annual bonuses (expressed both as a percentage of base salary and in dollars) for each of the NEOs assuming achievement of the criteria necessary to achieve 100% of the target annual bonus, together with the company performance and individual performance components of the 2011 target annual bonus and a comparison to target annual bonuses for 2011.

NEO	2012 Base Salary	2012 Target Annual Bonus (%)	Change from Total 2011 Target Annual Bonus Percentage (%)(1)	Company Performance Component of 2012 Target Annual Bonus ($)(2)	Individual Performance Component of 2012 Target Annual Bonus ($)(2)	Total 2012 Target Annual Bonus ($)(2)
Mr. Hughes	$ 700,000	175 %	6 %	$ 918,750	$ 306,250	$ 1,225,000
Mr. Nicholas	$ 500,000	160 %	7 %	$ 600,000	$ 200,000	$ 800,000
Ms. Merdian	$ 400,000	100 %	0 %	$ 300,000	$ 100,000	$ 400,000
Mr. Chisholm	$ 475,000	125 %	25 %	$ 445,313	$ 148,437	$ 593,750
Mr. Isbrandtsen	$ 400,000	100 %	0 %	$ 300,000	$ 100,000	$ 400,000

(1) Amounts set forth in the table under Change from Total 2011 Target Annual Bonus (%) reflect the increase, if any, in 2012 Target Annual Bonus % from the 2011 Target Annual Bonus %.

(2) As described below under Form of Payment of 2012 Performance-Based Annual Bonuses, annual bonuses paid to NEOs for 2012 that exceed $250,000 will not be paid fully in cash, but will instead be paid in part in the form of vested DSUs with a mandatory three-year holding period, based on a step function that provides that as the value of an NEO s 2012 annual bonus increases, an increasingly smaller percentage of that bonus will be paid in cash.

In addition, as was the case in 2011, the Committee determined that the maximum sum of the two annual bonus components (*i.e.*, the maximum total annual bonus) in 2012 will continue to be $5 million for each of Mr. Hughes and Mr. Nicholas, and $2 million for each of the other NEOs. These maximum amounts were determined after consultation with Cook & Co., and were considered appropriate by the Committee as maximum total annual bonuses for each of these NEOs based on their position, responsibilities, level of performance needed to reach the maximum, and competitive considerations.

Form of Payment of 2012 Performance-Based Annual Bonuses. The Committee also determined, after consultation with Cook & Co., to continue the practice it had adopted for 2011 relating to the form of payment of annual bonuses to NEOs. Accordingly, annual bonuses paid to NEOs for 2012 that exceed $250,000 will not be paid fully in cash, but will instead be paid in part in the form of vested DSUs with a mandatory three-year holding period in accordance with the step function (and related table) described and set forth above under Form of Payment of 2011 Performance-Based Annual Bonuses. Payment of annual bonus amounts in this manner has the result that, as the value of an NEO s annual bonus increases, an increasingly smaller percentage of that bonus is paid in cash. Because this exposes a greater portion of NEOs annual bonuses to the future financial performance of Redwood, the Committee believes this practice results in a greater alignment of executive and stockholder interests.

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The table below sets forth total 2012 target annual bonus amounts for each NEO and the portions of such target amounts that, if earned, would be paid in cash and vested DSUs with a mandatory three-year holding period as a result of the application of the above-described step function.

NEO	Value of Total 2012 Target Bonus ($)	Portion of Total 2012 Target Bonus That Would be Paid in Cash ($/%)	Portion of Total 2012 Target Bonus That Would be Paid in DSUs(1) ($/%)
Mr. Hughes	$ 1,225,000	$ 787,500/(64 %)	$ 437,500/(36 %)
Mr. Nicholas	$ 800,000	$ 565,000/(71 %)	$ 235,000/(29 %)
Ms. Merdian	$ 400,000	$ 340,000/(85 %)	$ 60,000/(15 %)
Mr. Chisholm	$ 593,750	$ 451,563/(76 %)	$ 142,187/(24 %)
Mr. Isbrandtsen	$ 400,000	$ 340,000/(85 %)	$ 60,000/(15 %)

(1) As noted above, these deferred stock units would be vested at grant, but subject to a mandatory three-year holding period.

Individual Performance Component of 2012 Target Bonus. The Committee reviewed and approved factors and goals that will be used over the course of 2012 to evaluate each of the NEOs individual performance in 2012 and which will be used at the end of 2012 as a basis for the Committee s individual performance bonus determinations. As in past years, during 2012 these individual factors and goals will be subject to adjustment should circumstances warrant at the discretion of the Committee. The Committee also determined that for 2012 the individual performance component of the bonus could be earned up to 200% of the target amount for that component depending on the Committee s assessment of individual performance, subject to adjustment when circumstances warrant at the discretion of the Committee.

Company Performance Component of 2012 Target Bonus. The Committee made the following determinations with respect to company performance bonus formula for use in 2012 for NEOs:

Consistent with the methodology it established for 2011, for 2012 the target performance threshold (*i.e.*, the level of company performance at which the target company performance bonus will be paid) will be Adjusted ROE equal to a risk-free rate plus an incremental premium.

The risk-free rate will equal the average interest rate during the prior two calendar years for five-year U.S. Treasury obligations, which average interest rate was 1.75% (after rounding to the nearest 0.25%), subject to adjustment when circumstances warrant at the discretion of the Committee. A five-year risk-free interest rate was used because it generally corresponds to the weighted average duration of investments historically made by Redwood.

The incremental premium will be 6%, subject to adjustment when circumstances warrant at the discretion of the Committee. This incremental premium was determined by the Committee after a review of various factors, including market rates for real estate-related debt obligations and Redwood s business model. The use of a 6% incremental premium is intended to provide executives with an incentive to achieve attractive investment returns for Redwood (and align the interests of executives and shareholders in seeking this level of return), without exposing Redwood to inappropriate risk.

No company performance bonus will be paid if Adjusted ROE is 4% less than the target performance threshold (or lower), subject to adjustment when circumstances warrant at the discretion of the Committee.

Company performance bonuses in excess of the target for those bonus amounts will not be paid unless Adjusted ROE is more than 1% above the target company performance threshold.

- As noted above, each NEO is subject to a maximum total bonus for 2012.

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As a result of the Committee s determinations, including those described above, the company performance bonus formula for use in 2012 for NEOs will be as follows:

For Adjusted ROE of less than or equal to 3.75%, no company performance bonus would be paid;
For Adjusted ROE between 3.75% and 7.75%, the company performance bonus would be pro-rated between 0% and 100% of the target company performance bonus;
For Adjusted ROE between 7.75% and 8.75%, 100% of target company performance bonus would be paid; and
For Adjusted ROE in excess of 8.75%:
if Adjusted ROE is less than or equal to 20%, the company performance bonus would be increased by a pro-rated amount such that total annual bonus for an NEO would be four times the total target bonus for that NEO when Adjusted ROE is 20%;
if Adjusted ROE is greater than 20%, the company performance bonus for an NEO would be increased by an amount such that total annual bonus would increase by one-third of the total target bonus for that NEO for every 1% increase in Adjusted ROE above 8.75% Adjusted ROE; and
because total annual bonus is used in the formulas described in the two immediately preceding bullet points, solely for the purpose of calculating the increase in company performance bonus in accordance with the described formulas, an individual performance bonus equal to 100% of the target for the individual performance bonus is assumed (although it would not affect the calculation of his or her company performance bonus, an executive officer may, in fact, be awarded an individual performance bonus of more or less than 100% of the target for his or her individual performance bonus).

Using a formula that resulted in a pro-rated portion of the company performance bonus being earned for Adjusted ROE between the target performance threshold and 4% below that threshold was determined as appropriate to reward good financial performance below the target level; and continuing to maintain a formula that resulted in a company performance bonus in excess of target for Adjusted ROE above 8.75% was determined as appropriate to reward financial performance that exceeded the target threshold. As in past years, during 2012, the company performance bonus formula will be subject to adjustment when circumstances warrant at the discretion of the Committee.

Deferred Compensation

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

Redwood also matches 50% of cash compensation deferred by participants in the Executive Deferred Compensation Plan, provided that total matching payments and contributions made by Redwood to participants in the Executive Deferred Compensation Plan and the 401(k) Plan (discussed below) are limited

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to 6% of the participant s base salary. Vesting of the matching payments is based on the employee s tenure with Redwood, and over time, an employee becomes increasingly vested in both prior and new matching payments. Employees are fully vested in all prior and all new matching payments after six years of employment. Redwood believes the Executive Deferred Compensation Plan provides for, among other things, a vehicle for Redwood s executives to plan for retirement and for tax planning.

Employee Stock Purchase Plan

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

401(k) Plan and Other Matching Contributions

Redwood offers a tax-qualified 401(k) Plan to all employees for retirement savings. Under this Plan, employees are allowed to defer and invest up to 100% of their cash earnings, subject to the maximum 401(k) contribution amount (which, in 2011, was $16,500 for those under 50 years of age and $22,000 for those 50 years of age or older). Contributions can be invested in a diversified selection of publicly-traded mutual funds.

In order to encourage participation and to provide a retirement planning benefit to employees, Redwood also provides a matching contribution of 50% of employees 401(k) Plan contributions, provided that matching contributions to the 401(k) Plan are limited to the lesser of 4% of an employee s cash compensation and, in 2011, $8,250. Vesting of the 401(k) Plan matching contributions is based on the employee s tenure with Redwood, and over time, an employee becomes increasingly vested in both prior and new matching contributions. Employees are fully vested in all prior and all new matching contributions after six years of employment.

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

There are no other retirement or pension plans at Redwood.

Other Benefits

In addition to cash compensation and equity-based awards, Redwood currently provides all employees with certain other benefits consisting of: medical, dental, vision, disability, and life insurance, a salary continuation program, an employee assistance program, and a flexible spending accounting program. The provision of these types of benefits is important in attracting and retaining employees. During 2011, Redwood paid approximately two-thirds of all employees monthly premium for medical and dental coverage, and 100% of all employees premiums for basic long-term disability and life insurance provided through Redwood plans.

Severance and Change of Control Arrangements

Prior to 2006, two of Redwood s NEOs, Mr. Hughes and Mr. Nicholas, entered into employment agreements with Redwood, each of which provided for severance payments in the event Redwood terminates the executive s employment without cause or the executive terminates his employment for good reason. Similarly, prior to 2006, another executive officer, Mr. Harold F. Zagunis entered into an employment agreement with Redwood, which also provided for severance payments in the event Redwood terminates the executive s employment without cause or the executive terminates his employment for good reason. These employment agreements also provide for payments and vesting of stock options and other equity-related awards in the event of the executive s death or disability. In the event of a change of control in which the surviving or acquiring corporation does not assume outstanding stock options and equity-related awards or

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substitute equivalent awards, the executive s outstanding options and equity-related awards will immediately vest and become exercisable. These agreements were entered into in order to attract and retain these executives in the competitive marketplace for executive talent.

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

The terms of these severance and change of control arrangements are described in more detail below under Other Compensation Matters Potential Payments upon Termination or Change of Control. No other executive officer of Redwood is currently party to an employment agreement that provides for severance payments in the event of the termination of the executive s employment or in the event of a change of control, although the award agreements for DSUs and PSUs granted to executive officers provide for full vesting of the DSUs or PSUs granted in the event of death or disability, and, in the case of PSUs, partial vesting of the PSUs granted in the event of a termination without cause.

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

Elimination of Excise Tax Gross-Up Provisions From Executive Employment Agreements. In March 2011, Redwood s Board of Directors approved an amendment to each of the outstanding employment agreements between an executive officer and Redwood (*i.e.*, to the employment agreements with Mr. Hughes, Mr. Nicholas, and Mr. Zagunis) to eliminate the provisions of those agreements that provided for excise tax gross-ups with respect to excise taxes that may be imposed on change-in-control severance payments made under these agreements. Subsequent to this approval, Redwood and each of these executive officers entered into that amendment to these employment agreements. The Committee does not intend to offer excise tax gross-up provisions in any future executive employment agreements.

Tax Considerations

Section 162(m) of the Internal Revenue Code (the Code) limits the tax deductibility by Redwood of annual compensation in excess of $1,000,000 paid to Redwood s chief executive officer and Redwood s three other most highly compensated executive officers employed at the end of the year other than the chief financial officer. However, certain performance-based compensation that is paid pursuant to a compensation plan that has been approved by stockholders (such as Redwood s 2002 Incentive Plan) is excluded from the $1,000,000 limit if, among other requirements, the compensation is payable only upon the attainment of pre-established, objective performance goals and the committee of the board of directors that establishes those goals consists only of outside directors. All members of the Committee qualify as outside directors.

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

While the tax impact of any compensation arrangement is one factor to be considered, that impact is evaluated in light of the Committee s overall compensation philosophy and objectives. The Committee will consider the deductibility of executive compensation, while retaining the discretion it deems necessary to

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compensate officers in a manner commensurate with performance and the competitive environment for executive talent. The Committee may determine to award significant amounts of compensation to NEOs that are not fully tax deductible to Redwood because these compensation awards are consistent with its philosophy and are in Redwood s best interests and that the compensation awards not being fully deductible is not significant enough to Redwood, due to its structure as a REIT, to outweigh these other factors.

Clawback Policy with Respect to Bonus and Incentive Compensation

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

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this Proxy Statement. Based on this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee:
Georganne C. Proctor, Chair
Richard D. Baum
Thomas C. Brown
Mariann Byerwalter
Jeffrey T. Pero

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Executive Compensation Tables

Summary Compensation

The following table includes information concerning compensation earned by the NEOs for the years ended December 31, 2011, 2010, and 2009. Titles shown in the table are those held by the executive officer on December 31, 2011.

(1) All NEOs were paid their annualized salaries in 2011. Ms. Merdian joined the company in 2010 and was paid a proration of her annualized salary of $400,000 from her hire date in April 2010 through December 31, 2010. Mr. Chisholm joined the company in 2009 and was paid a proration of his annualized salary of $400,000 from his hire date in September 2009 through December 31, 2009.

(2) Represents the grant date fair value of stock units awarded determined in accordance with FASB Accounting Standards Codification Topic 718. For 2011, our NEOs received grants of deferred stock units and performance stock units on December 7, 2011. The deferred stock units and performance stock units were granted with the grant date fair values of $10.53, and $9.83 per share, respectively. Please refer to the Grant of Plan-Based Awards table for the number of units granted along with the vesting and performance criteria for each grant.

(3) In addition to $2.2 million grant date fair value of long term incentive awards received on December 7, 2011 as described in footnote (2) above, Mr. Hughes also received an award of deferred stock units with a grant date fair value of $15,500 on February 28, 2012. This represents the amount exceeding $250,000 of his 2011 performance-based annual bonus which, in accordance with a step function calculation, was not paid fully in cash, but was instead paid in immediately vested deferred stock units with a mandatory three-year holding period. For more details on the step function calculation please refer to Executive Compensation Compensation Discussion and Analysis Form of Payment of 2011 Performance-Based Annual Bonuses.

(4) These amounts are annual performance-based bonuses paid in cash for each fiscal year indicated with respect to performance during such fiscal year (but paid early in the following fiscal year). As with prior years, 2011 annual performance-based bonuses were weighted 75% on Adjusted ROE and 25% on achievement of pre-established individual goals. For 2011, none of the executives received the Adjusted ROE component of annual performance-based bonuses. For further details, please refer to Executive Compensation Compensation Discussion and Analysis Company Performance Component of 2011 Annual Bonuses

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(5) Represents matching contributions to our 401(k) Plan and our Executive Deferred Compensation Plan. For further details, please refer to Executive Compensation Compensation Discussion and Analysis Deferred Compensation and 401(k) Plan and Other Matching Contribution. In addition, for Mr. Chisholm includes a relocation and transition expense allowance of $200,000 which was paid in two $100,000 installments in 2009 and 2010 and for Ms. Merdian includes a relocation and transition expense allowance of $200,000 which was paid in 2010.

(6) As previously announced, effective March 9, 2012, Ms. Merdian ceased employment with Redwood.

Grants of Plan-Based Awards

The following table reflects estimated possible payouts to the NEOs in 2011 under Redwood s performance-based compensation plan as well as actual equity-related grants made in 2011 under Redwood s Incentive Plan. Actual payouts for performance in 2011 are reflected in the Summary Compensation table above. As discussed above under Executive Compensation Compensation Discussion and Analysis 2011 Performance-Based Annual Bonus Compensation, 2011 annual performance-based bonuses were weighted 75% on Adjusted ROE and 25% on achievement of pre-established individual goals. Annual bonuses are subject to an overall maximum 2011 annual total incentive award of $5 million for Mr. Hughes and Mr. Nicholas and $2 million for each of the other NEOs.

In 2011, Redwood implemented a step function for performance-based annual bonuses paid to NEOs. Any amounts that exceeded $250,000 would not be paid fully in cash, but would instead be paid in part in the form of vested DSUs with a mandatory three-year holding period. For further details regarding the step function, please refer to Executive Compensation Compensation Discussion and Analysis Form of Payment of 2011 Performance-Based Annual Bonuses.