

REDWOOD TRUST INC
Form PRE 14A
April 09, 2008

**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:
Filed by a Party other than the
Registrant:

Check the appropriate box:

<input checked="" type="checkbox"/>	Preliminary Proxy Statement
<input type="checkbox"/>	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
<input type="checkbox"/>	Definitive Proxy Statement
<input type="checkbox"/>	Definitive Additional Materials
<input type="checkbox"/>	Soliciting Material Pursuant to §240.14a-12

REDWOOD TRUST, INC.
(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

<input checked="" type="checkbox"/>	No fee required.
<input type="checkbox"/>	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:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:

.. Fee paid previously with preliminary materials.
.. 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:

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

NOTICE OF 2008 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 22, 2008 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 three Class II directors to serve until the Annual Meeting of Stockholders in 2011 and until their successors are duly elected and qualified;
2. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2008;
3. To consider and vote upon an amendment to our 2002 Incentive Plan;
4. To consider and vote upon an amendment to our Charter;
5. To consider and vote upon a stockholder proposal; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

A Proxy Statement describing the matters to be considered at the Annual Meeting is attached to this notice. Our Board of Directors has fixed the close of business on March 31, 2008 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement of the Annual Meeting.

Your proxy to vote your shares at the Annual Meeting is solicited by our Board of Directors, which recommends that your votes be cast “FOR” the specified nominees for election as directors, “FOR” ratification of the appointment of our independent registered public accounting firm for 2008, “FOR” approval of the amendment to the 2002 Incentive Plan, “FOR” approval of the amendment to our charter, and “AGAINST” the stockholder proposal concerning our classified board of directors.

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

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 22, 2008:

Our Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2007 are available at <http://www.redwoodtrust.com/phoenix.zhtml?c=117494&p=irol-eproxy>

By Order of the Board of Directors,

Martin S. Hughes
Chief Financial Officer and Secretary

April , 2008

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

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
INFORMATION ABOUT THE ANNUAL MEETING	1
Who May Attend the Annual Meeting	1
Who May Vote	1
Voting by Proxy	2
Quorum Requirement	2
Other Matters	2
Information About the Proxy Statement and the Solicitation of Proxies	2
Annual Report	2
Householding	2
CORPORATE GOVERNANCE	3
Corporate Governance Standards	3
Director Independence	3
Process for Nominating Potential Director Candidates	3
Code of Ethics	4
Presiding Director	4
Executive Sessions	4
Communications with the Board of Directors	4
Director Attendance at Annual Meetings of Stockholders	4
Stock Ownership by Directors	4
ITEM 1 — ELECTION OF DIRECTORS	4
Vote Required	5
Class II Nominees to Board of Directors	5
Current Directors - Terms Expiring After 2008	5
MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS	6
Audit Committee	6
Compensation Committee	7
Governance and Nominating Committee	7
Committee Members	7
DIRECTOR COMPENSATION	7
EXECUTIVE OFFICERS	9
SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS	10
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS	11
EXECUTIVE COMPENSATION	11
Compensation Discussion and Analysis	11
Compensation Philosophy and Objectives	12
Determination of Compensation	12
Compensation Benchmarking	13
Base Salary	14
Performance-Based Compensation	14
Long-Term Compensation Awards	15
Deferred Compensation	16
Employee Stock Purchase Plan	16
401(k) and Other Contributions	17
Other Benefits	17
Severance and Change of Control Arrangements	17

Tax Considerations	18
Policies with Respect to Incentive Compensation	18
Executive Compensation Tables	19
Summary Compensation	19
Grants of Plan-Based Awards	21
Outstanding Equity Awards at Fiscal Year-End	22
Options Exercised and Stock Vested	26

Non-Qualified Deferred Compensation	26
Potential Payments upon Termination or Change of Control	27
Compensation Committee Report	30
ADDITIONAL INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS	30
Section 16(a) Beneficial Ownership Reporting Compliance	30
Compensation Committee Interlocks and Insider Participation	31
Certain Relationships and Related Transactions	31
AUDIT COMMITTEE MATTERS	31
Audit Committee Report	31
Fees to Independent Registered Public Accounting Firm for 2007 and 2006	32
Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Registered Independent Accounting Firm	32
ITEM 2 — RATIFICATION OF APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	32
Vote Required	33
ITEM 3 — APPROVAL OF AMENDMENT TO THE 2002 INCENTIVE PLAN	33
Material Difference: Increase in Authorized Shares	34
General	34
Purpose	34
Administration	34
Eligible Persons	34
Shares Subject to the Incentive Stock Plan	35
Term of Options and SARs	35
Limitation on ISO Treatment.	35
Option Exercise	36
Option Exercise Price	36
Limited Transferability of Options	36
Other Equity Awards	36
Stock Awards	36
Performance Units	36
DERs	37
Amendment and Termination of Plan	37
Awards under the Plan	38
Vote Required	39
ITEM 4 — APPROVAL OF THE AMENDMENT TO REDWOOD’S CHARTER TO INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE	39
Purpose and Effect of the Amendment	39
Vote Required	40
ITEM 5 — STOCKHOLDER PROPOSAL CONCERNING REDWOOD’S CLASSIFIED BOARD OF DIRECTORS	40
Stockholder Proposal	40
Supporting Statement from Mr. Armstrong	40
Board of Directors Statement Against this Stockholder Proposal	41
Vote Required	42
STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING	43
INFORMATION INCORPORATED BY REFERENCE	43

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 22, 2008

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Redwood Trust, Inc., a Maryland corporation (the Company, Redwood, we or us), for exercise at the Annual Meeting of Stockholders (the Annual Meeting) to be held on Thursday, May 22, 2008 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, and at any adjournment or postponement thereof. This Proxy Statement, the accompanying proxy card, and the Notice of Annual Meeting are being sent to stockholders beginning on or about April , 2008.

Redwood Trust is a financial institution with competitive advantages in the business of investing in real estate loans and securities. Since Redwood was founded in 1994, our goal has been to create a company that is more efficient than banks, thrifts, insurance companies, and other financial institutions at investing in, financing, and managing residential and commercial real estate loans and securities.

Like many financial institutions, our primary source of income is net interest income, which equals the interest income we earn from our investments in loans and securities less the interest expenses we incur from borrowed funds and other liabilities.

Some financial institutions fund their asset investments with borrowed money sourced by taking bank deposits, writing insurance policies, or issuing corporate debt. By contrast, we fund most of our investments with equity. Our investments are sourced from third party issuers of securitizations as well as the two securitization programs we sponsor.

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

INFORMATION ABOUT THE ANNUAL MEETING

Who May Attend the Annual Meeting

Only stockholders who own common stock as of the close of business on March 31, 2008, the record date for the Annual Meeting, will be entitled to attend the Annual Meeting. In the discretion of management, we may permit certain other individuals to attend the Annual Meeting, including members of the media and our employees.

Who May Vote

Each share of our common stock outstanding on the record date for the Annual Meeting is entitled to one vote. The record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting is the close of business on March 31, 2008. As of the record date, there were 32,709,963 shares of common stock issued and

outstanding. You can vote in person at the Annual Meeting or by proxy. To vote by proxy, please date, execute, and mail the enclosed proxy card, or authorize a proxy to vote your shares by telephone or through the Internet as instructed on the proxy card.

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

- 1 -

Voting by Proxy

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

- For the election of each of the three Class II nominees to serve until the Annual Meeting of Stockholders in 2011 and until their successors are duly elected and qualified;
- For the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2008;
 - For the approval of the amendment to our 2002 Incentive Plan;
 - For the approval of the amendment to our Charter;
 - Against the stockholder proposal; 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 voting in person at the Annual Meeting, or by sending a written revocation of your proxy addressed to Redwood's Secretary at our principal executive office.

Quorum Requirement

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

Other Matters

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

Information About the Proxy Statement and the Solicitation of Proxies

The enclosed proxy is solicited by our Board of Directors and we will bear the costs of this solicitation. Proxy solicitations will be made by mail, and also may be made by personal interview, telephone, facsimile transmission, e-mail, and telegram on our behalf by our directors and officers. Banks, brokerage houses, nominees, and other fiduciaries will be requested to forward the proxy soliciting material to the beneficial owners of shares of our common stock entitled to be voted at the Annual Meeting and to obtain authorization for the execution of proxies. We will, upon request, reimburse those parties for their reasonable expenses in forwarding proxy materials to their beneficial owners. We have engaged MacKenzie Partners to solicit votes in connection with the Annual Meeting, and the cost of the engagement is estimated to be \$10,000, plus reasonable out-of-pocket expenses.

Annual Report

Our 2007 Annual Report, consisting of our Annual Report on Form 10-K for the year ended December 31, 2007, 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, 2007. Certain sections of our 2007 Annual Report are incorporated into this Proxy Statement by reference, as described in more detail under “Information Incorporated by Reference” below. A copy of our 2007 Annual Report is available on our website.

Householding

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

- 2 -

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, 2 N. LaSalle Street, Chicago, IL 60602; or by telephone at: 888-472-1955).

If you participate in householding and wish to receive a separate copy of this Notice of Annual Meeting, Proxy Statement, and 2007 Annual Report, or if you do not wish to participate in householding and prefer to receive separate copies of these documents in the future, please contact Computershare as indicated above.

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

CORPORATE GOVERNANCE

Corporate Governance Standards

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

Director Independence

As required under Section 303A of the New York Stock Exchange Listed Company Manual and our Governance Standards, our Board of Directors has affirmatively determined that none of our non-management directors, Richard D. Baum, Thomas C. Brown, Mariann Byerwalter, Greg H. Kubicek, Georganne C. Proctor, Charles J. Toeniskoetter, and David L. Tyler, 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 qualifies as "independent" under Section 303A.

Process for Nominating Potential Director Candidates

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

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

Governance and Nominating Committee, also determines whether a nominee would be an independent director.

Stockholders' Nominees. Our Bylaws permit stockholders to nominate a candidate for election as a director at an annual meeting of the stockholders subject to compliance with certain notice and informational requirements, as more fully described below in this Proxy Statement under "Stockholder Proposals for the 2009 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. 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.

- 3 -

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

Code of Ethics

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

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

Presiding Director

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

Executive Sessions

Our Governance Standards require that our independent directors meet in executive session at each regularly scheduled meeting of our Board of Directors and at such other times as determined by our Presiding Director.

Communications with the Board of Directors

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

Director Attendance at Annual Meetings of Stockholders

Pursuant to our Governance Standards, our directors are expected to attend annual meetings of stockholders. Seven of our nine directors attended last year’s Annual Meeting of Stockholders. We expect eight of our nine directors to attend this year’s Annual Meeting.

Stock Ownership by Directors

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

requirement.

ITEM 1 — ELECTION OF DIRECTORS

Our Charter and Bylaws provide for a classified Board of Directors consisting of Classes I, II, and III. Class II directors are scheduled to be elected at the 2008 Annual Meeting to serve for a three-year term and until their successors are duly elected and qualify. The nominees for the three Class II director positions are set forth below. In the event we are advised prior to the Annual Meeting that any nominee will be unable to serve or for good cause will not serve as a director if elected at the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them for the nominees listed below and against any other nominees. As of the date of this Proxy Statement, we are not aware of any nominee who is unable or unwilling to serve as a director for the full three-year term. The nominees listed below currently are serving as directors of Redwood.

- 4 -

Vote Required

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

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

Class II Nominees to Board of Directors

Name	Positions With Redwood
Douglas B. Hansen	Director and President
Greg H. Kubicek	Director
Charles J. Toeniskoetter	Director

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

Douglas B. Hansen, age 50, is a founder of Redwood and has served as President and a director since 1994. In November 2007, Mr. Hansen announced his intention to retire from his position as President of Redwood on or prior to December 31, 2008. From 1990 through 1997, Mr. Hansen was a Principal with George E. Bull, III Capital Management, Inc. (GB Capital). GB Capital assisted banks, insurance companies, and savings and loans in managing portfolios of securitized and unsecuritized mortgage loans, in arranging collateralized borrowings, in hedging balance sheet risks, and with other types of capital markets transactions. GB Capital ceased operating as a business in 1997. Mr. Hansen holds a B.A. in Economics from Harvard College and an M.B.A. from Harvard Business School.

Greg H. Kubicek, age 51, has been a director of Redwood since 2002. Mr. Kubicek is President of The Holt Group, Inc., a real estate company that develops, owns, and manages commercial real estate properties and is a residential homebuilder. He has also served as Chairman of the Board of Cascade Corporation, an international manufacturing corporation. Mr. Kubicek holds a B.A. in Economics from Harvard College.

Charles J. Toeniskoetter, age 63, has been a director of Redwood since 1994. Mr. Toeniskoetter is Chairman of Toeniskoetter & Breeding, Inc., a company that has developed, owns, and manages over \$300 million of commercial and industrial real estate properties. Mr. Toeniskoetter serves on the Board of Directors of SJW Corp. and Heritage Commerce Corp., as well as a number of other community organizations. Mr. Toeniskoetter holds a B.S. in Mechanical Engineering from the University of Notre Dame and an M.B.A. from the Stanford University Graduate School of Business.

Current Directors - Terms Expiring After 2008

Richard D. Baum, age 61, has been a director of Redwood since 2001. Mr. Baum is the Executive Director of the California Commission for Economic Development. He 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, Washington, D.C. Mr. Baum is a Class I director whose term expires in 2010.

George E. Bull, III, age 59, is a founder of Redwood and has served as Chairman of the Board and Chief Executive Officer of Redwood since 1994. 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. Mr. Bull is a Class III director whose term expires in 2009.

- 5 -

Mariann Byerwalter, age 47, 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 The PMI Group, Inc., Pacific Life Corp., SRI International, Burlington Capital Corporation, 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 2010.

Thomas C. Brown, age 59, has been a director of Redwood since 1998. Mr. Brown is currently Chief Executive Officer and principal shareholder of Urban Bay Properties, Inc. Mr. Brown has previously held CEO or senior officer positions with PMI Mortgage Insurance, Centerbank, and Merrill Lynch and Co., Inc. Mr. Brown's experience encompasses over 25 years in mortgage finance, real estate, banking, and investment banking. Mr. Brown holds a B.S. from Boston University and an M.B.A. from the University of Buffalo. Mr. Brown is a Class III director whose term expires in 2009.

Georganne C. Proctor, age 51, has been a director of Redwood since March 9, 2006. Ms. Proctor is currently Executive Vice President and Chief Financial Officer of 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 also serves on the Board of Directors of Kaiser Aluminum Corporation. Ms. Proctor holds a B.S. in Business Management from the University of South Dakota and an M.B.A. from California State University at Hayward. Ms. Proctor is a Class III director whose term expires in 2009.

David L. Tyler, age 70, has been a director of Redwood since 2001. Mr. Tyler retired in 2001 as Executive Vice President, director, and Chief Financial Officer of Interland Corporation, a private owner and developer of commercial centers and apartment communities. Interland owned and operated in excess of 5,000 multifamily units and over two million square feet of office space. Prior to his employment at Interland beginning in 1972, Mr. Tyler served as Controller at Kaiser Resources from 1968 to 1971 and with the accounting firm Touche Ross from 1963 to 1968. Mr. Tyler holds a B.A. from the University of California, Riverside and an M.B.A. from the Graduate School of Business, University of California, Berkeley. Mr. Tyler is a Class I director whose term expires in 2010.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors consists of nine directors. Our Board of Directors has established three committees of the Board: the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee. The membership during the 2007 fiscal year 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 seven meetings during 2007. The independent directors of Redwood meet in executive session at each of the five regularly scheduled meetings, for a total of five times during 2007. The Chair of the Governance and Nominating Committee, also designated as the Presiding Director, presided at executive sessions of the independent directors. No director attended fewer than 75% of the meetings of the Board of Directors and the committees on which he or she served, and as noted above, seven of our nine directors attended last year's Annual

Meeting of Stockholders and eight of our nine directors are expected to attend this year's Annual Meeting of Stockholders.

Audit Committee

The Audit Committee provides oversight regarding accounting, auditing, and financial reporting practices of Redwood. The Audit Committee consists solely of non-management directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the New York Stock Exchange (NYSE) and the rules of the SEC. Our Board of Directors has determined that all members of the Audit Committee are financially literate pursuant to the listing standards of the NYSE, and has designated Mr. Tyler and Ms. Proctor as "audit committee financial experts" as defined under current SEC rules. The Audit Committee met eight times in 2007 in order to carry out its responsibilities discussed more fully below under "Audit Committee Matters - Audit Committee Report."

- 6 -

Compensation Committee

The Compensation Committee reviews and approves Redwood's compensation philosophy, reviews the competitiveness of Redwood's total compensation practices, determines and approves the annual base salaries and incentive awards paid to our named executive officers, approves the terms and conditions of proposed incentive plans applicable to our named executive officers and other key management employees, approves and administers Redwood's employee benefit plans, and reviews and approves hiring and severance arrangements for our named executive officers. The Compensation Committee consists solely of non-management directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE. The Compensation Committee met seven times in 2007 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 guidelines and principles, evaluates potential director candidates and recommends qualified candidates to the full Board, reviews the management succession plan and executive resources, oversees the evaluation of the Board of Directors, and, in collaboration with the Compensation Committee, oversees the evaluation of management. The Governance and Nominating Committee consists solely of non-management directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE. The Governance and Nominating Committee met four times in 2007 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	Mariann Byerwalter	Richard D. Baum
Thomas C. Brown	Richard D. Baum	Greg H. Kubicek
Georganne C. Proctor	Thomas C. Brown	Georganne C. Proctor
Charles J. Toeniskoetter	David L. Tyler	Charles J. Toeniskoetter
David L. Tyler		

DIRECTOR COMPENSATION

Information on our non-employee director compensation to be paid in 2008 is set forth below.

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

*The Chair of the Audit Committee receives an additional annual retainer of \$20,000 and the Chairs of the Compensation Committee and the Governance and Nominating Committee receive an additional annual retainer of \$15,000.

Non-employee directors are also reimbursed for reasonable out-of-pocket expenses incurred in attending Board and committee meetings.

Non-employee directors are also granted deferred stock units each year following the annual meeting of stockholders. Directors may also be granted equity awards upon their initial election to the Board. Deferred stock units are credited under Redwood's executive deferred compensation plan. The number of deferred stock units granted is determined by dividing \$60,000 by the closing stock price on the grant date. These deferred stock units are fully-vested upon grant. They are distributed from the executive deferred compensation plan in shares of common stock at a date elected by the director with the earliest distribution date four years from the date of grant. Dividend equivalent rights on these deferred stock units are paid in cash to directors on each dividend distribution date.

- 7 -

Each director may elect to defer receipt of cash compensation or dividend equivalent rights on deferred stock units in Redwood's executive deferred compensation plan. Cash balances in the executive deferred compensation plan are unsecured liabilities of the Company and are utilized by the Company as available capital to help fund investments and operations. Directors earn a rate of return on their deferred compensation that is equivalent to 120% of the applicable long-term federal rate published by the Internal Revenue Service compounded monthly. Directors have the option of converting their deferrals into deferred stock units which will entitle them to receive dividend equivalent rights.

The following table provides information on non-employee director compensation for 2007. Directors who are employed by Redwood do not receive any compensation for their Board activities.

Non-Employee Director Compensation - 2007

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(3)	All Other Compensation \$(4)	TOTAL (\$)
Richard D. Baum	\$ 81,000	\$ 60,000	—	—	—	\$ 29,800	\$ 170,800
Thomas C. Brown	\$ 80,000	\$ 60,000	—	—	—	\$ 34,525	