

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 8-K/A

CURRENT REPORT  
PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

August 19, 2003  
Date of Report (Date of earliest event reported)

**REDWOOD TRUST, INC.**

(Exact Name of Registrant as Specified in Charter)

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Maryland

(State or Other Jurisdiction  
of Incorporation)

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001-13759

(Commission File Number)

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68-0329422

(I.R.S. Employer Identification No.)

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591 Redwood Highway  
Suite 3100  
Mill Valley, California

(Address of Principal Executive Offices)

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94941

(Zip Code)

(415) 389-7373  
(Registrant's Telephone Number,  
Including Area Code)

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**INFORMATION TO BE INCLUDED IN THE REPORT**

**Item 7(c). Exhibit**

99.1 "Supplemental Financial Information Quarter Ended June 30, 2003."

**Item 12. Results of Operation and Financial Condition**

On August 15, 2003, Redwood Trust, Inc. (the "Company") filed a current report on Form 8-K dated August 14, 2003 and attached as an Exhibit to such Form 8-K its Supplemental Financial Information for the second quarter of 2003 (the "Exhibit"). The Company is now filing a current report on Form 8-K/A, to correct an error and to conform the Exhibit to the final publicly released Supplement Financial Information, and the Company hereby furnishes a copy of its Supplemental Financial Information for the second quarter of 2003 as publicly released on August 14, 2003.

SIGNATURE

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

Date: August 19, 2003

REDWOOD TRUST, INC.

By: /s/ Harold F. Zagunis

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Harold F. Zagunis  
Vice President, Chief Financial Officer,  
Treasurer and Secretary

## Exhibit Index

<u>Exhibit Number</u>	
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99.1	“Supplemental Financial Information Quarter Ended June 30, 2003.”
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SUPPLEMENTAL FINANCIAL INFORMATION  
QUARTER ENDED JUNE 30, 2003

**Financial Results**

**Table 1**  
Earnings  
(\$ in thousands, except per share data)

	GAAP Earnings	Core Earnings	Average Diluted Shares Outstanding	GAAP EPS	Core EPS	GAAP Earnings / Average GAAP Common Equity (Annualized)	Core Earnings / Average Common Core Equity (Annualized)
Q1: 2002	\$11,219	\$10,887	14,077,405	\$0.80	\$0.77	14.2%	14.2%
Q2: 2002	13,802	12,546	15,747,048	0.88	0.80	15.4%	14.5%
Q3: 2002	14,306	12,831	16,240,194	0.88	0.79	14.1%	14.3%
Q4: 2002	14,566	13,183	16,529,075	0.88	0.80	13.7%	14.2%
<b>2002</b>	<b>53,893</b>	<b>49,447</b>	<b>15,658,623</b>	<b>3.44</b>	<b>3.16</b>	<b>14.3%</b>	<b>14.3%</b>
Q1: 2003	14,932	14,962	16,983,513	0.88	0.88	12.9%	15.4%
Q2: 2003	22,212	20,761	18,433,165	1.21	1.13	17.6%	19.4%

See **Tables 5 & 6** for a description of core earnings and core equity and a related reconciliation of GAAP earnings to core earnings and GAAP equity to core equity.

**Table 2**  
Net Interest Income  
(\$ in thousands)

	Total Interest Income	Total Interest Expense	Net Interest Income	Earning Asset Yield	Cost Of Funds	Interest Rate Spread	Interest Rate Margin	Net Interest Income/ Average GAAP Equity	Net Interest Income/ Average Core Equity
Q1: 2002	\$ 30,716	\$15,602	\$15,114	4.92%	2.82%	2.10%	2.36%	17.69%	18.13%
Q2: 2002	36,252	18,489	17,763	4.71%	2.69%	2.02%	2.25%	18.41%	19.12%
Q3: 2002	42,093	24,291	17,802	4.07%	2.57%	1.50%	1.68%	16.47%	18.51%
Q4: 2002	54,155	33,323	20,832	3.59%	2.35%	1.24%	1.35%	18.50%	20.92%
<b>2002</b>	<b>163,216</b>	<b>91,705</b>	<b>71,511</b>	<b>4.13%</b>	<b>2.54%</b>	<b>1.59%</b>	<b>1.77%</b>	<b>17.75%</b>	<b>19.21%</b>
Q1: 2003	61,125	36,933	24,192	3.31%	2.10%	1.21%	1.28%	19.79%	23.33%
Q2: 2003	71,426	41,802	29,624	3.35%	2.05%	1.30%	1.36%	23.45%	27.63%

**Table 3**  
Interest Expense  
(\$ in thousands)

	Average Total Debt	Interest Expense	Debt Cost Of Funds	Average Long Term Debt	Long Term Interest Expense	Long Term Debt Cost Of Funds	Average Short Term Debt	Short Term Interest Expense	Short Term Debt Cost Of Funds
Q1: 2002	\$2,211,927	\$15,602	2.82%	\$1,280,503	\$10,661	3.33%	\$931,424	\$ 4,941	2.12%
Q2: 2002	2,752,215	18,489	2.69%	1,806,884	12,894	2.85%	945,331	5,595	2.37%
Q3: 2002	3,781,717	24,291	2.57%	2,893,682	18,893	2.61%	888,035	5,398	2.43%
Q4: 2002	5,680,238	33,323	2.35%	5,018,353	28,945	2.31%	661,885	4,378	2.65%
<b>2002</b>	<b>3,616,506</b>	<b>91,705</b>	<b>2.54%</b>	<b>2,760,490</b>	<b>71,393</b>	<b>2.59%</b>	<b>856,016</b>	<b>20,312</b>	<b>2.37%</b>
Q1: 2003	7,036,183	36,933	2.10%	6,637,053	34,993	2.11%	399,130	1,940	1.94%
Q2: 2003	8,160,393	41,802	2.05%	7,861,252	40,163	2.04%	299,141	1,639	2.19%

**Table 4**  
Net Interest Income on an "At Risk" Assets and Recourse Debt Basis  
(\$ in thousands)

	Interest Income On "At Risk" Assets	Interest Expense On Recourse Debt	Net Interest Income on "At Risk" Basis	"At Risk" Asset Yield	Recourse Cost Of Funds	"At Risk" Asset Interest Rate Spread	"At Risk" Asset Interest Rate Margin	Net Interest Income/ Average Core Equity
Q1: 2002	\$20,055	\$ 4,941	\$15,114	6.30%	2.12%	4.18%	4.75%	18.13%
Q2: 2002	23,358	5,595	17,763	7.02%	2.37%	4.65%	5.34%	19.12%
Q3: 2002	23,200	5,398	17,802	7.03%	2.43%	4.60%	5.39%	18.51%
Q4: 2002	25,210	4,378	20,832	9.07%	2.65%	6.42%	7.49%	20.92%
<b>2002</b>	<b>91,823</b>	<b>20,312</b>	<b>71,511</b>	<b>7.29%</b>	<b>2.37%</b>	<b>4.92%</b>	<b>5.68%</b>	<b>19.21%</b>
Q1: 2003	26,132	1,940	24,192	11.77%	1.94%	9.83%	10.89%	23.33%
Q2: 2003	31,263	1,639	29,624	15.54%	2.19%	13.35%	14.73%	27.63%

See **Table 7** for a reconciliation of GAAP interest income to net interest income on an "at risk" basis and GAAP interest expense to recourse cost of funds. See **Table 8** for a description of recourse assets and recourse debt and a related reconciliation to reported GAAP assets and reported GAAP debt.

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## Financial Results (continued)

**Table 5**  
Core Earnings (1)  
(\$ in thousands)

	GAAP Earnings	Less: Net Realized & Unrealized Market Value Gains/ (Losses)	Less: Variable Stock Option Valuation Adjustments	Core Earnings
Q1: 2002	\$11,219	\$ 875	\$ (543)	\$10,887
Q2: 2002	13,802	2,045	(789)	12,546
Q3: 2002	14,306	730	745	12,831
Q4: 2002	14,566	1,461	(78)	13,183
<b>2002</b>	<b>53,893</b>	<b>5,111</b>	<b>(665)</b>	<b>49,447</b>
Q1: 2003	14,932	918	(948)	14,962
Q2: 2003	22,212	2,941	(1,490)	20,761

(1) Core earnings is not a measure of earnings in accordance with GAAP. Core earnings is calculated as GAAP earnings from ongoing operations less mark-to-market adjustments (which include realized and unrealized gains and losses on certain assets, interest rate agreements, and variable stock options). We believe that core earnings provides relevant and useful information regarding our results of operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments on only a portion of our assets and stock options and none of our liabilities are recognized through our Consolidated Statements of Income under GAAP, and thus GAAP valuation adjustments may not be fully indicative of changes in market values on our balance sheet as a whole or a reliable guide to our current operating performance. Furthermore, gains or losses realized upon sales of assets vary based on portfolio management decisions; a sale of an asset for a gain or a loss may or may not affect our ongoing earnings from operations. Because all companies and analysts do not calculate non-GAAP measures such as core earnings in the same fashion, core earnings as calculated by us may not be comparable to similarly titled measures reported by other companies.

**Table 6**  
Core Equity (2)  
(\$ in thousands)

	Total GAAP Equity	Balance Sheet Mark-to-Mkt Adjustments	Core Equity	Average GAAP Equity	Average Balance Sheet Mark-to-Mkt Adjustments	Average Core Equity	Average Preferred Equity	Average Common Equity	Average Common Core Equity
Q1: 2002	\$364,444	\$ 11,015	\$353,429	\$341,766	\$ 8,360	\$333,406	\$26,517	\$315,249	\$306,889
Q2: 2002	417,930	35,826	382,104	385,887	14,213	371,674	26,517	359,370	345,157
Q3: 2002	445,728	54,148	391,580	432,310	47,705	384,605	26,517	405,793	358,088
Q4: 2002	473,033	69,146	403,887	450,464	52,200	398,264	26,517	423,947	371,747
<b>2002</b>	<b>473,033</b>	<b>69,146</b>	<b>403,887</b>	<b>402,986</b>	<b>30,786</b>	<b>372,200</b>	<b>26,517</b>	<b>376,469</b>	<b>345,683</b>
Q1: 2003	485,402	68,077	417,325	489,086	74,231	414,855	26,517	462,569	388,338
Q2: 2003	547,176	108,409	438,767	505,373	76,477	428,896	—	505,373	428,896

(2) Core equity is calculated as GAAP equity less unrealized gains and losses on certain assets and interest rate agreements. We believe measurements based on core equity provide relevant useful information regarding our results of operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments reflected in GAAP equity represent unrealized gains and losses on a portion of the balance sheet only and may not be reflective of the equity available to invest in operations. Because all companies and analysts do not calculate non-GAAP measures in the same fashion, core equity and ratios using core equity as calculated by the us may not be comparable to similarly titled measures reported by other companies. Average Common Equity measures are calculated by excluding Average Preferred Equity.

**Table 7**  
Reconciliation of GAAP Interest Income and Interest Expense to Interest Income on "At Risk" Assets and Interest Expense on Recourse Debt  
(\$ in thousands)

	Total Interest Income	Interest Income On Non- Recourse Assets	Interest Income On "At Risk" Assets	Total Interest Expense	Interest Expense On Non- Recourse Debt	Interest Expense On Recourse Debt
Q1: 2002	\$ 30,716	\$10,661	\$20,055	\$15,602	\$10,661	\$ 4,941
Q2: 2002	36,252	12,894	23,358	18,489	12,894	5,595
Q3: 2002	42,093	18,893	23,200	24,291	18,893	5,398
Q4: 2002	54,155	28,945	25,210	33,323	28,945	4,378
<b>2002</b>	<b>163,216</b>	<b>71,393</b>	<b>91,823</b>	<b>91,705</b>	<b>71,393</b>	<b>20,312</b>
Q1: 2003	61,125	34,993	26,132	36,933	34,993	1,940
Q2: 2003	71,426	40,163	31,263	41,802	40,163	1,639

Financial Results (continued)

Table 8  
Leverage Ratios  
Equity to Assets and Debt to Equity  
(\$ in thousands)

	Reported Assets	Non-Recourse Assets	(3) Recourse Assets	GAAP Equity to Reported Assets	GAAP Equity to Recourse Assets	Reported Debt	Non-Recourse Debt	(3) Recourse Debt	Reported Debt to GAAP Equity	Recourse Debt to GAAP Equity
Q1: 2002	\$ 2,739,838	\$1,252,881	\$1,486,957	13%	25%	\$2,356,972	\$1,234,459	\$1,122,513	6.5	3.1
Q2: 2002	3,689,782	2,266,849	1,422,933	11%	29%	3,246,603	2,241,600	1,005,003	7.8	2.4
Q3: 2002	5,674,302	4,394,493	1,279,809	8%	35%	5,199,362	4,365,281	834,081	11.7	1.9
Q4: 2002	7,007,772	6,435,025	572,747	7%	83%	6,496,734	6,397,020	99,714	13.7	0.2
<b>2002</b>	<b>7,007,772</b>	<b>6,435,025</b>	<b>572,747</b>	<b>7%</b>	<b>83%</b>	<b>6,496,734</b>	<b>6,397,020</b>	<b>99,714</b>	<b>13.7</b>	<b>0.2</b>
Q1: 2003	8,172,063	7,210,944	961,119	6%	51%	7,646,408	7,170,691	475,717	15.8	1.0
Q2: 2003	10,356,052	9,591,192	764,860	5%	72%	9,760,315	9,542,631	217,684	17.8	0.4

(3) Assets that have been sold to non-recourse securitization trusts and long-term debt that is non-recourse to Redwood are reported on our balance sheet. Only our net investments in the equity of these trusts constitute "at-risk" assets to us. If we had used different terms or forms of securitization these transactions may have been accounted for as sales. With sales accounting, our reported balance sheet (both assets and liabilities) would be substantially smaller (although the economics of the transaction and our exposure to risks would be unchanged). If we structured the securitizations differently and therefore accounted for them as sales rather than financings, our asset-based margins would have been different and, in some respects, reported on a basis that is more comparable to some other financial institutions. Our interest rate spread and our interest rate margin would have been higher and would show a positive trend in recent quarters. Our reported debt-to-equity ratio would have been substantially lower. Table 4 above presents our interest income and interest expense as if we had structured our securitizations to obtain sales accounting treatment rather than financing accounting treatment; effectively, on an "at-risk" basis for assets and on a recourse basis for liabilities.

Table 9  
Reconciliation of Average Reported Assets to Average "At Risk" Assets and Average Reported Debt to Average Recourse Debt  
(\$ in thousands)

	Average Reported Assets	Average Non-Recourse Assets	Average "At Risk" Assets	Average Reported Debt	Average Non-Recourse Debt	Average Recourse Debt
Q1: 2002	\$2,564,847	\$1,291,657	\$1,273,190	\$2,211,927	\$1,280,503	\$931,424
Q2: 2002	3,158,751	1,827,533	1,331,218	2,752,215	1,806,884	945,331
Q3: 2002	4,234,477	2,914,133	1,320,344	3,781,717	2,893,682	888,035
Q4: 2002	6,158,898	5,046,549	1,112,349	5,680,238	5,018,353	661,885
<b>2002</b>	<b>4,039,652</b>	<b>2,780,650</b>	<b>1,259,002</b>	<b>3,616,506</b>	<b>2,760,490</b>	<b>856,016</b>
Q1: 2003	7,553,727	6,665,511	888,216	7,036,183	6,637,053	399,130
Q2: 2003	8,687,371	7,882,857	804,514	8,160,393	7,861,252	299,141



**Portfolios**

**Table 10**  
**Balances & Yields**  
(S in thousands)

	At period end					For period ended		
	Current Face	Unamortized Premium/(Discount)	Credit Reserve	Unrealized Gain/(loss)	Net Book Value	Average Balance*	Interest Income	Yield
<b>Total Earning Assets</b>								
Q1: 2002	\$ 2,912,217	\$ (10,332)	\$(200,037)	\$ 11,016	2,712,864	\$2,498,565	30,716	4.92%
Q2: 2002	3,854,545	(14,318)	(212,296)	35,827	3,663,758	3,080,165	36,252	4.71%
Q3: 2002	5,829,188	(6,941)	(227,346)	54,148	5,649,049	4,131,870	42,093	4.07%
Q4: 2002	7,158,374	(25,644)	(233,162)	72,226	6,971,794	6,042,042	54,155	3.59%
<b>2002</b>	<b>7,158,374</b>	<b>(25,644)</b>	<b>(233,162)</b>	<b>72,226</b>	<b>6,971,794</b>	<b>3,948,399</b>	<b>163,216</b>	<b>4.13%</b>
Q1: 2003	8,356,918	(50,540)	(244,056)	72,282	8,134,604	7,393,566	61,125	3.31%
Q2: 2003	10,471,190	(62,790)	(216,834)	115,903	10,307,469	8,523,925	71,426	3.35%
<b>Residential Real Estate Loans</b>								
Q1: 2002	\$ 1,790,239	\$ 9,502	\$ (5,481)	\$ —	1,794,260	\$1,544,924	14,125	3.66%
Q2: 2002	2,795,628	13,881	(5,953)	—	2,803,556	2,201,384	19,601	3.56%
Q3: 2002	4,736,645	31,859	(6,611)	—	4,761,893	3,262,462	24,447	3.00%
Q4: 2002	6,190,674	32,776	(8,271)	—	6,215,179	5,318,910	37,264	2.80%
<b>2002</b>	<b>6,190,674</b>	<b>32,776</b>	<b>(8,271)</b>	<b>—</b>	<b>6,215,179</b>	<b>3,092,755</b>	<b>95,437</b>	<b>3.09%</b>
Q1: 2003	7,297,515	33,520	(9,996)	—	7,321,039	6,625,539	42,314	2.55%
Q2: 2003	9,206,987	52,592	(12,159)	—	9,247,420	7,670,484	47,299	2.47%
<b>Residential Loan Credit-Enhancement Securities</b>								
Q1: 2002	\$ 460,035	\$ (28,058)	\$(194,556)	\$ 12,411	249,832	\$ 201,540	6,695	13.29%
Q2: 2002	492,642	(35,745)	(206,343)	34,205	284,759	238,282	9,006	15.12%
Q3: 2002	542,669	(49,360)	(220,735)	51,556	324,130	257,844	10,443	16.20%
Q4: 2002	559,186	(58,578)	(224,891)	76,762	352,479	271,016	11,283	16.65%
<b>2002</b>	<b>559,186</b>	<b>(58,578)</b>	<b>(224,891)</b>	<b>76,762</b>	<b>352,479</b>	<b>242,404</b>	<b>37,427</b>	<b>15.44%</b>
Q1: 2003	614,111	(84,648)	(234,060)	77,759	373,162	278,339	13,693	19.68%
Q2: 2003	598,134	(113,358)	(204,675)	113,310	393,411	279,010	17,977	25.77%
<b>Commercial Real Estate Loans</b>								
Q1: 2002	\$ 50,057	\$ (677)	\$ —	\$ —	49,380	\$ 50,170	1,274	10.16%
Q2: 2002	50,436	(638)	—	—	49,798	49,369	1,233	9.99%
Q3: 2002	51,318	(654)	—	—	50,664	50,102	1,280	10.22%
Q4: 2002	30,250	(980)	—	—	29,270	47,935	1,213	10.12%
<b>2002</b>	<b>30,250</b>	<b>(980)</b>	<b>—</b>	<b>—</b>	<b>29,270</b>	<b>49,390</b>	<b>5,000</b>	<b>10.12%</b>
Q1: 2003	32,223	(1,009)	—	—	31,214	30,888	816	10.57%
Q2: 2003	42,492	(7,970)	—	—	34,522	33,138	960	11.59%
<b>Securities Portfolio</b>								
Q1: 2002	\$ 601,926	\$ 8,901	\$ —	\$ (1,395)	609,432	\$ 676,692	8,514	5.03%
Q2: 2002	502,684	8,184	—	1,622	512,490	529,843	6,222	4.70%
Q3: 2002	477,950	11,214	—	2,592	491,756	493,997	5,719	4.63%
Q4: 2002	339,095	1,138	—	(4,536)	335,697	320,154	3,949	4.93%
<b>2002</b>	<b>339,095</b>	<b>1,138</b>	<b>—</b>	<b>(4,536)</b>	<b>335,697</b>	<b>504,401</b>	<b>24,404</b>	<b>4.84%</b>
Q1: 2003	370,187	1,597	—	(5,477)	366,307	360,084	4,192	4.66%
Q2: 2003	587,038	5,946	—	2,593	595,577	453,546	5,057	4.46%
<b>Cash &amp; Cash Equivalents</b>								
Q1: 2002	\$ 9,960	\$ —	\$ —	\$ —	9,960		108	
Q2: 2002	13,155	—	—	—	13,155		190	
Q3: 2002	20,606	—	—	—	20,606		204	
Q4: 2002	39,169	—	—	—	39,169		446	
<b>2002</b>	<b>39,169</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>39,169</b>		<b>948</b>	
Q1: 2003	42,882	—	—	—	42,882		110	
Q2: 2003	36,539	—	—	—	36,539		133	

\* Average excludes unrealized gains (losses) from mark-to-market adjustments.

Portfolios (continued)

Table 11  
Portfolio Activity  
(\$ in thousands)

	Acquisitions	Sales	Principal Payments	Discount/ (Premium) Amortization	Credit Provision	Net Charge-offs/ (Recoveries)	Net Mark-to-Mkt Adjustment	Net Increase/ (Decrease)
<b>Residential Real Estate Loans</b>								
Q1: 2002	\$ 417,276	\$ —	\$ (95,924)	\$ (1,672)	\$ (282)	\$ —	\$ —	\$ 319,398
Q2: 2002	1,146,621	(46,683)	(89,582)	(1,060)	(472)	—	472	1,009,296
Q3: 2002	2,075,296	(2,960)	(109,896)	(3,502)	(894)	236	57	1,958,337
Q4: 2002	1,616,400	—	(155,915)	(5,754)	(1,660)	—	215	1,453,286
<b>2002</b>	<b>5,255,593</b>	<b>(49,643)</b>	<b>(451,317)</b>	<b>(11,988)</b>	<b>(3,308)</b>	<b>236</b>	<b>744</b>	<b>4,740,317</b>
Q1: 2003	1,338,920	(73,137)	(152,768)	(6,156)	(1,756)	31	726	1,105,860
Q2: 2003	2,168,181	—	(234,582)	(5,055)	(2,163)	—	—	1,926,381
<b>Residential Loan Credit-Enhancement</b>								
<b>Securities</b>								
Q1: 2002	\$ 59,157	\$ (5,037)	\$ (4,270)	\$ 366	\$ —	\$ —	\$ 8,803	\$ 59,019
Q2: 2002	25,849	(898)	(15,801)	1,767	—	—	24,010	34,927
Q3: 2002	28,983	—	(9,437)	2,722	—	—	17,103	39,371
Q4: 2002	13,442	—	(13,573)	3,275	—	—	25,205	28,349
<b>2002</b>	<b>127,431</b>	<b>(5,935)</b>	<b>(43,081)</b>	<b>8,130</b>	<b>—</b>	<b>—</b>	<b>75,121</b>	<b>161,666</b>
Q1: 2003	37,077	—	(23,212)	5,545	—	—	1,273	20,683
Q2: 2003	11,265	(1,248)	(38,773)	10,024	—	—	38,981	20,249
<b>Commercial Real Estate Loans</b>								
Q1: 2002	\$ 140	\$ —	\$ (1,873)	\$ 28	\$ —	\$ —	\$ 1	\$ (1,704)
Q2: 2002	470	—	(53)	—	—	—	1	418
Q3: 2002	919	—	(54)	—	—	—	1	866
Q4: 2002	—	—	(21,068)	24	—	—	(350)	(21,394)
<b>2002</b>	<b>1,529</b>	<b>—</b>	<b>(23,048)</b>	<b>52</b>	<b>—</b>	<b>—</b>	<b>(347)</b>	<b>(21,814)</b>
Q1: 2003	2,011	—	(68)	—	—	—	1	1,944
Q2: 2003	3,408	—	(34)	(67)	—	—	1	3,308
<b>Securities Portfolio</b>								
Q1: 2002	\$ 76,701	\$ (89,395)	\$ (60,040)	\$ (1,701)	\$ —	\$ —	\$ 385	\$ (74,050)
Q2: 2002	23,026	(56,802)	(65,617)	(1,249)	—	—	3,700	(96,942)
Q3: 2002	6,811	—	(31,830)	(1,052)	—	—	5,337	(20,734)
Q4: 2002	196,279	(315,308)	(31,009)	(24)	—	—	(5,997)	(156,059)
<b>2002</b>	<b>302,817</b>	<b>(461,505)</b>	<b>(188,496)</b>	<b>(4,026)</b>	<b>—</b>	<b>—</b>	<b>3,425</b>	<b>(347,785)</b>
Q1: 2003	42,955	—	(11,329)	3	—	—	(1,019)	30,610
Q2: 2003	237,516	(4,051)	(12,126)	(111)	—	—	8,042	229,270

Table 12  
Residential Credit Results  
(\$ in thousands)

	Face Value Underlying Loans	Internally- Designated Credit Reserves	External Credit Enhancement	(4) Total Credit Protection	Total Credit Protection As % of Loans	Delinquent Loans	Delinquent Loan %	Total Credit Losses	Losses To Securities Junior to Redwood's Interest	Redwood's Share of Net Charge Offs (Recoveries)	Total Credit Losses As % of Loans (Annualized)
<b>Total Residential Portfolio</b>											
Q1: 2002	\$66,616,844	\$ 200,037	\$ 79,924	\$279,961	0.42%	\$ 134,775	0.20%	\$ 452	\$ 618	\$ (166)	0.01%
Q2: 2002	68,856,787	212,296	65,102	277,398	0.40%	153,217	0.22%	115	189	(74)	0.01%
Q3: 2002	73,220,004	227,346	64,147	291,493	0.40%	152,894	0.21%	386	103	283	0.01%
Q4: 2002	64,849,784	233,162	63,179	296,341	0.46%	150,353	0.23%	377	163	214	0.01%
<b>2002</b>	<b>64,849,784</b>	<b>233,162</b>	<b>63,179</b>	<b>296,341</b>	<b>0.46%</b>	<b>150,353</b>	<b>0.23%</b>	<b>1,330</b>	<b>1,073</b>	<b>257</b>	<b>0.01%</b>
Q1: 2003	68,045,731	244,056	61,814	305,870	0.45%	162,657	0.24%	1,171	456	715	0.01%
Q2: 2003	61,031,486	216,834	58,296	275,130	0.45%	163,894	0.27%	384	152	232	0.01%
<b>Residential Real Estate Loans</b>											
Q1: 2002	\$ 1,790,239	\$ 5,481	\$ —	\$ 5,481	0.31%	\$ 4,926	0.28%	\$ —	\$ —	\$ —	0.00%
Q2: 2002	2,795,628	5,953	—	5,953	0.21%	3,257	0.12%	—	—	—	0.00%
Q3: 2002	4,736,645	6,611	—	6,611	0.14%	1,387	0.03%	236	—	236	0.01%
Q4: 2002	6,190,674	8,271	—	8,271	0.13%	4,127	0.07%	—	—	—	0.00%
<b>2002</b>	<b>6,190,674</b>	<b>8,271</b>	<b>—</b>	<b>8,271</b>	<b>0.13%</b>	<b>4,127</b>	<b>0.07%</b>	<b>236</b>	<b>—</b>	<b>236</b>	<b>0.01%</b>
Q1: 2003	7,297,515	9,996	—	9,996	0.14%	1,159	0.02%	31	—	31	0.01%
Q2: 2003	9,206,987	12,159	—	12,159	0.13%	3,895	0.04%	—	—	—	0.00%
<b>Residential Loan Credit-Enhancement</b>											
<b>Securities</b>											
Q1: 2002	\$64,826,605	\$ 194,556	\$ 79,924	\$274,480	0.42%	\$ 129,849	0.20%	\$ 452	\$ 618	\$ (166)	0.01%
Q2: 2002	66,061,159	206,343	65,102	271,445	0.41%	149,960	0.23%	115	189	(74)	0.01%
Q3: 2002	68,483,359	220,735	64,147	284,882	0.42%	151,507	0.22%	150	103	47	0.01%
Q4: 2002	58,659,110	224,891	63,179	288,070	0.49%	146,226	0.25%	377	163	214	0.01%
<b>2002</b>	<b>58,659,110</b>	<b>224,891</b>	<b>63,179</b>	<b>288,070</b>	<b>0.49%</b>	<b>146,226</b>	<b>0.25%</b>	<b>1,094</b>	<b>1,073</b>	<b>21</b>	<b>0.01%</b>
Q1: 2003	60,748,216	234,060	61,814	295,874	0.49%	161,498	0.27%	1,140	456	684	0.01%
Q2: 2003	51,824,499	204,675	58,296	262,971	0.51%	159,999	0.31%	384	152	232	0.01%

(4) The credit reserve on residential real estate loans owned is only available to absorb losses on the residential real estate loan portfolio. The internally- designated credit reserves on loans credit enhanced and the external credit enhancement on loans credit enhanced are only available to absorb losses on the residential loan credit-enhancement portfolio.

## Loan Characteristics

**Table 13**  
Residential Real Estate Loan Characteristics  
(at period end, all dollars in thousands)

	Jun. 2003	Mar. 2003	Dec. 2002	Sep. 2002	Jun. 2002	Mar. 2002
Retained Residential Loans	<b>\$9,247,420</b>	<b>\$7,321,039</b>	<b>\$6,215,179</b>	<b>\$4,761,893</b>	<b>\$2,803,556</b>	<b>\$1,794,260</b>
Number of loans	24,988	19,805	16,669	12,580	7,394	4,914
Average loan size	\$ 370	\$ 370	\$ 373	\$ 379	\$ 379	\$ 365
Adjustable %	99%	99%	99%	98%	96%	100%
Hybrid %	1%	1%	1%	2%	4%	0%
Fixed %	0%	0%	0%	0%	0%	0%
Northern California	13%	13%	12%	12%	13%	12%
Southern California	12%	12%	12%	12%	12%	11%
Florida	12%	12%	12%	11%	13%	12%
Georgia	6%	7%	8%	8%	9%	7%
New York	5%	5%	6%	6%	6%	7%
New Jersey	4%	5%	5%	5%	5%	5%
Illinois	4%	4%	4%	4%	4%	3%
Texas	3%	3%	3%	3%	3%	3%
Arizona	3%	3%	3%	3%	2%	3%
Colorado	3%	3%	3%	3%	3%	3%
North Carolina	3%	3%	3%	3%	2%	2%
Other states (none greater than 3%)	32%	30%	29%	30%	28%	32%
Year 2003 origination	40%	11%	0%	0%	0%	0%
Year 2002 origination	49%	72%	78%	70%	47%	17%
Year 2001 origination	6%	11%	13%	18%	31%	42%
Year 2000 origination	0%	0%	0%	0%	0%	0%
Year 1999 origination	1%	2%	2%	3%	5%	9%
Year 1998 origination or earlier	4%	4%	7%	9%	17%	32%
% balance in loans > \$1mm per loan	15%	14%	14%	15%	15%	16%

**Table 14**  
Residential Loan Credit-Enhancement Securities – Underlying Collateral Characteristics  
(\$ in thousands)

	Jun. 2003	Mar. 2003	Dec. 2002	Sep. 2002	Jun. 2002	Mar. 2002
First loss position, principal value	\$ 233,787	\$ 236,122	\$ 215,046	\$ 206,062	\$ 181,179	\$ 173,990
Second loss position, principal value	168,524	176,864	163,428	152,433	139,290	127,930
Third loss position, principal value	195,823	201,125	180,712	184,174	172,173	158,115
<b>Total principal value</b>	<b>\$ 598,134</b>	<b>\$ 614,111</b>	<b>\$ 559,186</b>	<b>\$ 542,669</b>	<b>\$ 492,642</b>	<b>\$ 460,035</b>
First loss position, reported value	\$ 74,470	\$ 63,675	\$ 65,292	\$ 52,595	\$ 46,979	\$ 42,760
Second loss position, reported value	139,788	130,415	121,491	104,928	90,878	79,969
Third loss position, reported value	179,153	179,072	165,696	166,607	146,902	127,103
<b>Total reported value</b>	<b>\$ 393,411</b>	<b>\$ 373,162</b>	<b>\$ 352,479</b>	<b>\$ 324,130</b>	<b>\$ 284,759</b>	<b>\$ 249,832</b>
Internally-Designated Credit Reserves	\$ 204,675	\$ 234,060	\$ 224,891	\$ 220,735	\$ 206,343	\$ 194,556
External Credit Enhancement	58,296	61,814	63,179	64,147	65,102	79,924
<b>Total Credit Protection</b>	<b>\$ 262,971</b>	<b>\$ 295,874</b>	<b>\$ 288,070</b>	<b>\$ 284,882</b>	<b>\$ 271,445</b>	<b>\$ 274,480</b>
As % of Total Portfolio	0.51%	0.49%	0.49%	0.42%	0.41%	0.42%
Underlying Residential Real Estate Loans	\$ 51,824,499	\$60,748,216	\$58,659,110	\$68,483,359	\$66,061,159	\$64,826,605
Number of credit-enhanced loans	116,730	138,327	135,196	160,695	165,515	162,502
Average loan size	\$ 444	\$ 439	\$ 434	\$ 426	\$ 399	\$ 398
Adjustable %	36%	27%	20%	20%	19%	19%
Hybrid %	36%	39%	37%	28%	20%	14%
Fixed %	28%	34%	43%	52%	61%	67%
Northern California	26%	26%	27%	27%	25%	25%
Southern California	24%	24%	25%	24%	24%	25%
New York	6%	5%	5%	4%	5%	5%
Florida	4%	4%	3%	3%	3%	3%
Texas	3%	3%	3%	3%	4%	4%
Massachusetts	3%	3%	3%	3%	3%	3%
New Jersey	3%	3%	3%	3%	3%	3%
Other states (none greater than 3%)	31%	32%	31%	33%	33%	32%
Year 2003 origination	12%	2%	0%	0%	0%	0%
Year 2002 origination	42%	41%	28%	25%	11%	1%
Year 2001 origination	24%	31%	40%	43%	49%	55%
Year 2000 origination	4%	4%	5%	5%	6%	8%
Year 1999 origination	7%	9%	11%	11%	16%	17%
Year 1998 or earlier origination	11%	13%	16%	16%	18%	19%
% balance in loans > \$1mm per loan	10%	10%	8%	6%	5%	4%

**Loan Characteristics (continued)**

**Table 15**  
**Commercial Real Estate Loans — Characteristics**  
 (at period end, all dollars in thousands)

	Jun. 2003	Mar. 2003	Dec. 2002	Sep. 2002	Jun. 2002	Mar. 2002
Commercial Mortgage Loans	\$34,522	\$31,214	\$29,270	\$50,664	\$49,978	\$49,380
Number of Loans	12	10	7	9	8	7
Average Loan Size	\$ 2,877	\$ 3,121	\$ 4,181	\$ 5,629	\$ 6,247	\$ 7,054
Serious Delinquency	\$ 650	\$ 650	\$ 650	\$ —	\$ —	\$ —
Realized Credit losses	—	—	—	—	—	—
California %	46%	40%	36%	62%	61%	61%

**Table 16**  
**Securities Portfolio — Characteristics at June 30, 2003**  
 (\$ in thousands)

	Total	Rating:						
		AAA	AA	A	BBB	BB	B	Unrated
Commercial Real Estate	\$ 93,072	\$ 7,832	\$ —	\$ 21,141	\$ 54,045	\$5,978	\$4,076	\$ —
Residential Prime	158,912	34,511	72,369	19,984	32,048	—	—	—
Residential Subprime	153,165	—	17,321	100,802	35,042	—	—	—
Residential Second Lien	70,580	—	43,340	22,976	4,264	—	—	—
Manufactured Housing	15,338	2,990	5,620	6,728	—	—	—	—
Corporate REIT Debt	58,277	—	—	7,522	50,755	—	—	—
Real Estate CDOs	46,233	4,940	9,619	13,573	13,438	—	—	4,663
Total Securities Portfolio	\$595,577	\$50,273	\$148,269	\$192,726	\$189,592	\$5,978	\$4,076	\$4,663

**Table 17**  
**Asset / Liability Matching at June 30, 2003**  
 (\$ in thousands)

Asset Type	Asset Amount	One-Month LIBOR Liabilities	Six-Month LIBOR Liabilities	One-Year Treasury Liabilities	Fixed/Hybrid Liabilities	Non Interest Bearing Liabilities	Equity	Total Liabilities And Equity
Cash (unrestricted)	\$ 36,539	\$ 36,539	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 36,539
One-Month LIBOR	2,707,635	2,707,635	—	—	—	—	—	2,707,635
Six-Month LIBOR	6,849,546	4,249,407	2,264,658	126,598	—	—	208,883	6,849,546
Other ARM	17,541	—	—	17,541	—	—	—	17,541
One-Year Treasury	35,260	—	—	35,260	—	—	—	35,260
Fixed / Hybrid < 1yr*	79,847	—	—	—	—	—	79,847	79,847
Fixed > 1yr	387,890	—	—	—	221,191	—	166,699	387,890
Hybrid > 1yr	193,211	—	—	—	101,486	—	91,725	193,211
Non-Earning Assets	48,583	—	—	—	—	48,561	22	48,583
Total	\$10,356,052	\$6,993,581	\$2,264,658	\$179,399	\$322,677	\$48,561	\$547,176	\$10,356,052

### Long-Term Debt Characteristics

**Table 18**  
**Long-Term Debt Characteristics — Residential Mortgage Loans (Sequoia)**  
**(\$ in thousands)**

Sequoia Long Term Debt Issue	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Principal Outstanding At June 30, 2003	Interest Rate At June 30, 2003
Sequoia 1 A1	AAA	07/29/97	\$ 334,347	1m LIBOR	02/15/28	Called	\$ —	NM
Sequoia 1 A2	AAA	07/29/97	200,000	Fed Funds	02/15/28	Called	—	NM
Sequoia 2 A1	AAA	11/06/97	592,560	1y Treasury	03/30/29	6/26/05	179,399	2.67%
Sequoia 2 A2	AAA	11/06/97	156,600	1m LIBOR	03/30/29	6/26/05	47,411	1.38%
Sequoia 3 A1	AAA	06/26/98	225,459	Fixed to 12/02	05/31/28	Retired	—	NM
Sequoia 3 A2	AAA	06/26/98	95,000	Fixed to 12/02	05/31/28	Retired	—	NM
Sequoia 3 A3	AAA	06/26/98	164,200	Fixed to 12/02	05/31/28	Retired	—	NM
Sequoia 3 A4	AAA	06/26/98	121,923	1m LIBOR	05/31/28	Called	—	NM
Sequoia 3 M1	AA/AAA	06/26/98	16,127	1m LIBOR	05/31/28	Called	—	NM
Sequoia 3 M2	A/AA	06/26/98	7,741	1m LIBOR	05/31/28	Called	—	NM
Sequoia 3 M3	BBB/A	06/26/98	4,838	1m LIBOR	05/31/28	Called	—	NM
Sequoia 1A A1	AAA	05/04/99	157,266	1m LIBOR	02/15/28	Called	—	NM
Sequoia 4 A	AAA	03/21/00	377,119	1m LIBOR	08/31/24	6/28/05	186,187	1.42%
Sequoia 5 A	AAA	10/29/01	496,667	1m LIBOR	10/29/26	6/30/05	408,068	1.44%
Sequoia 5 B1	AA	10/29/01	5,918	1m LIBOR	10/29/26	6/30/05	5,918	1.89%
Sequoia 5 B2	A	10/29/01	5,146	1m LIBOR	10/29/26	6/30/05	5,146	1.89%
Sequoia 5 B3	BBB	10/29/01	2,316	1m LIBOR	10/29/26	6/30/05	2,316	1.89%
Sequoia 6A	AAA	04/26/02	496,378	1m LIBOR	04/26/27	6/30/05	433,037	1.38%
Sequoia 6B1	AA	04/26/02	5,915	1m LIBOR	04/26/27	6/30/05	5,915	1.76%
Sequoia 7A	AAA	05/29/02	554,686	1m LIBOR	05/29/32	6/30/05	485,545	1.44%
Sequoia 7B1	AA	05/29/02	8,080	1m LIBOR	05/29/32	6/30/05	8,080	1.85%
Sequoia 8 1A-1	AAA	07/30/02	50,000	1m LIBOR	08/20/32	6/30/05	—	NM
Sequoia 8 1A-2	AAA	07/30/02	61,468	Fixed to 12/04	08/20/32	6/30/05	59,460	3.46%
Sequoia 8 2A	AAA	07/30/02	463,097	1m LIBOR	08/20/32	6/30/05	420,931	1.40%
Sequoia 8 3A	AAA	07/30/02	49,973	6m LIBOR	08/20/32	6/30/05	43,892	3.00%
Sequoia 8 B1	AA	07/30/02	9,069	1m LIBOR	08/20/32	6/30/05	9,069	1.78%
Sequoia 9 1A	AAA	08/28/02	381,689	1m LIBOR	09/20/32	7/2/05	361,541	1.45%
Sequoia 9 2A	AAA	08/28/02	168,875	1m LIBOR	09/20/32	7/2/05	139,106	2.99%
Sequoia 9 B1	AA	08/28/02	7,702	1m LIBOR	09/20/32	7/2/05	7,701	1.85%
Sequoia 10 1A	AAA	09/26/02	822,375	1m LIBOR	10/20/27	7/2/05	772,130	1.50%
Sequoia 10 2A-1	AAA	09/26/02	190,000	1m LIBOR	10/20/27	7/2/05	180,912	1.48%
Sequoia 10 2A-2	AAA	09/26/02	3,500	1m LIBOR	10/20/27	7/2/05	3,500	1.78%
Sequoia 10 B1	AA	09/26/02	12,600	1m LIBOR	10/20/27	7/2/05	12,600	1.90%
Sequoia 10 B2	A	09/26/02	8,400	1m LIBOR	10/20/27	7/2/05	8,400	1.90%
Sequoia 10 B3	BBB	09/26/02	4,725	1m LIBOR	10/20/27	7/2/05	4,725	2.50%
Sequoia 11 A	AAA	10/30/02	695,210	1m LIBOR	12/21/32	7/3/05	656,560	1.55%
Sequoia 11 B1	AA	10/30/02	9,726	1m LIBOR	12/21/32	7/3/05	9,726	2.07%
Sequoia 12 A	AAA	12/19/02	1,080,076	1m LIBOR	01/21/33	7/3/05	1,037,855	1.55%
Sequoia 12 B1	AA	12/19/02	16,815	1m LIBOR	01/21/33	7/3/05	16,815	1.95%
Sequoia 2003-1 1A	AAA	02/27/03	798,206	1m LIBOR	04/20/33	7/1/05	775,613	1.48%
Sequoia 2003-1 2A	AAA	02/27/03	190,000	6m LIBOR	04/20/33	7/1/05	184,819	1.74%
Sequoia 2003-1 B-1	AA	02/27/03	15,905	1m LIBOR	04/20/33	7/1/05	15,905	1.98%
Sequoia 2003-1 B-2	A	02/27/03	8,210	Pass Through	04/20/33	7/1/05	8,210	2.79%
Sequoia 2003-2 A-1	AAA	04/29/03	500,000	1m LIBOR	06/01/33	7/1/05	494,603	1.43%
Sequoia 2003-2 A-2	AAA	04/29/03	303,600	6m LIBOR	06/01/33	7/1/05	298,351	1.63%
Sequoia 2003-2 M-1	AA	04/29/03	11,480	1m LIBOR	06/01/33	7/1/05	11,480	1.75%
Sequoia 2003-3 A-1	AAA	06/26/03	379,455	1m LIBOR	07/01/33	7/1/05	379,455	1.36%
Sequoia 2003-3 A-2	AAA	06/26/03	149,922	6m LIBOR	07/01/33	7/1/05	149,922	1.34%
Sequoia 2003-3 B-1	AA	06/26/03	9,075	1m LIBOR	07/01/33	7/1/05	9,075	1.68%
MLCC 2003-C A-1	AAA	06/26/03	773,795	1m LIBOR	06/01/28	7/3/05	773,795	1.36%
MLCC 2003-C A-2	AAA	06/26/03	200,002	6m LIBOR	06/01/28	7/3/05	200,002	1.34%
MLCC 2003-C B-1	AA	06/26/03	10,553	1m LIBOR	06/01/28	7/3/05	10,553	1.68%
<b>Total Sequoia Issuance</b>			<b>\$11,413,788</b>				<b>\$8,823,728</b>	<b>1.54%</b>

**Table 19**  
**Long-Term Debt Characteristics — Commercial Real Estate Loans**  
**(\$ in thousands)**

Commercial Long Term Debt Issue	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Principal Outstanding At June 30, 2003	Interest Rate At June 30, 2003
Commercial 1	NR	03/30/01	\$ 9,010	1m LIBOR	11/01/02	Paid Off	\$ —	NM
Commercial 2	NR	03/30/01	8,320	1m LIBOR	10/01/03	Paid Off	—	NM
Commercial 3	NR	03/01/02	8,318	1m LIBOR	07/01/03	NC	8,255	8.63%
<b>Total Commercial Issuance</b>			<b>\$25,648</b>				<b>\$ 8,255</b>	<b>8.63%</b>



**Long-Term Debt Characteristics (continued)**

**Table 20**  
**Long-Term Debt Characteristics**  
**Collateralized Debt Obligations and Other Resecuritizations – Acacia and**  
**SMFC**  
**(\$ in thousands)**

<b>Resecuritizations Long Term Debt Resecuritizations Issue</b>	<b>Debt Rating</b>	<b>Issue Date</b>	<b>Original Issue Amount</b>	<b>Index</b>	<b>Stated Maturity</b>	<b>Estimated Callable Date</b>	<b>Principal Outstanding At June 30, 2003</b>	<b>Interest Rate At June 30, 2003</b>
SMFC 2002A A1	AAA	04/30/02	64,761	1m LIBOR	04/30/30	6/30/05	\$ 36,446	1.17%
SMFC 2002A A2	AAA	04/30/02	15,861	1m LIBOR	08/30/29	6/30/05	11,846	1.86%
Acacia CDO 1 A	AAA	12/10/02	224,250	3m LIBOR	12/04/18	7/2/05	224,006	1.86%
Acacia CDO 1 B	AA	12/10/02	45,000	3m LIBOR	12/04/37	7/2/05	45,000	2.58%
Acacia CDO 1 C	BBB	12/10/02	15,750	3m LIBOR	12/04/37	7/2/05	15,750	3.98%
SMFC 2002B I A1	AA	12/19/02	16,855	Fixed	08/28/31	6/28/05	16,084	5.43%
SMFC 2002B I A2	A	12/19/02	18,274	Fixed	08/28/31	6/28/05	17,438	5.68%
SMFC 2002B I A3	BBB	12/19/02	17,221	Fixed	08/28/31	6/28/05	16,433	6.38%
SMFC 2002B I A4	BB	12/19/02	25,133	Fixed	08/28/31	6/28/05	23,983	6.75%
SMFC 2002B II A1	AA	12/19/02	15,517	Fixed	12/29/39	6/28/05	8,667	4.82%
SMFC 2002B II A2	A	12/19/02	18,345	Fixed	12/29/39	6/28/05	10,247	4.92%
SMFC 2002B II A3	BBB	12/19/02	14,989	Fixed	12/29/39	6/28/05	8,372	5.35%
SMFC 2002B II A4	BB	12/19/02	8,347	Fixed	12/29/39	6/28/05	4,662	6.00%
Acacia CDO 2 A	AAA	05/13/03	222,000	3m LIBOR	06/08/23	7/3/05	222,000	1.94%
Acacia CDO 2 B	AA	05/13/03	45,375	3m LIBOR	06/08/38	7/3/05	45,375	2.59%
Acacia CDO 2 C	BBB	05/13/03	16,500	3m LIBOR	06/08/38	7/3/05	16,500	4.54%
<b>Total Resecuritizations</b>			<b>\$784,178</b>				<b>\$722,808</b>	<b>2.63%</b>

Other Supplemental Financial Data

**Table 21**  
**Shareholder Wealth (5)**  
**(dollars per share)**

	GAAP Book Value Per Share	Dividends Declared During Period	Cumulative Dividends	Cumulative Reinvestment Earnings on Dividends	Cumulative Shareholder Wealth Per Share
Sep. 1994	\$11.67	\$ —	\$ —	\$ —	\$ 11.67
Dec. 1994	10.82	0.25	0.250	—	11.07
Dec. 1995	12.38	0.96	1.210	0.09	13.68
Dec. 1996	16.50	1.67	2.880	1.07	20.45
Dec. 1997	21.55	2.15	5.030	3.07	29.65
Dec. 1998	20.27	0.28	5.310	2.67	28.25
Dec. 1999	20.88	0.40	5.710	3.07	29.66
Dec. 2000	21.47	1.61	7.320	4.11	32.90
Dec. 2001	22.21	2.55	9.870	6.03	38.11
Dec. 2002	27.43	2.89	12.755	12.43	52.62
Jun. 2003	30.70	1.30	14.055	16.79	61.55

(5) In the nearly 9 years since the commencement of Redwood's operations, cumulative shareholder wealth has grown at a compound rate of 20% per year. We define shareholder wealth as growth in tangible book value per share, plus dividends paid, plus reinvestment of dividends. In calculating shareholder wealth, we assume that dividends were reinvested through the purchase of additional shares at the prevailing book value per share. With this assumption, the shareholder wealth we created can be compared to book value per share growth at a non-REIT company that has retained its earnings and compounded book value within the company. This is a measure of management value-added, not a measure of actual shareholder returns.

Book value per share was \$11.67 in September 1994 when we commenced operations. We increased reported book value to \$30.70 per share at June 30, 2003 through the retention of cash by keeping dividends lower than cash flow, net positive changes in market values of assets, issuance of stock at prices above book value, and repurchases of stock at prices below book value. Since we mark-to-market many of our assets through our balance sheet, reported book value is a good approximation of tangible value in the company. Cumulative dividends paid during this period were \$14.055 per share, and reinvestment earnings on those dividends were \$16.79 per share. Thus, cumulatively, shareholder wealth has increased from \$11.67 per share to \$61.55 per share during this nearly nine-year period. A company that earned a 20% after-tax return on equity and retained all its earnings would have shown a similar amount of shareholder wealth growth during this period.

**Table 22**  
**Operating Expenses**  
**(\$ in thousands)**

	Total Operating Expenses	Less: Variable Stock Option Valuation Adjustments & Excise Tax	Total Fixed and Variable Operating Expenses	Fixed Operating Expenses	Variable (Performance Based) Operating Expenses	Fixed and Variable Operating Expenses/ Average GAAP Equity	Fixed and Variable Operating Expenses/ Average Core Equity	Fixed Operating Expenses/ Average Core Equity	Efficiency Ratio: Fixed and Variable Operating Expenses/ Net Interest Income
Q1: 2002	\$ 4,089	\$ 543	\$ 3,546	\$ 1,758	\$ 1,788	4.2%	4.3%	2.1%	23%
Q2: 2002	5,325	789	4,536	2,081	2,455	4.7%	4.9%	2.2%	26%
Q3: 2002	3,545	(745)	4,290	2,101	2,189	4.0%	4.5%	2.2%	24%
Q4: 2002	7,046	1,037	6,009	2,230	3,779	5.3%	6.0%	2.2%	29%
<b>2002</b>	<b>20,005</b>	<b>1,624</b>	<b>18,381</b>	<b>8,170</b>	<b>10,211</b>	<b>4.6%</b>	<b>4.9%</b>	<b>2.2%</b>	<b>26%</b>
Q1: 2003	8,282	1,810	6,472	2,663	3,809	5.3%	6.2%	2.6%	27%
Q2: 2003	8,793	1,490	7,303	2,645	4,658	5.8%	6.8%	2.5%	25%

**Table 23**  
**Unamortized Premium and Discount Balances\***  
**(\$ in thousands)**

	Unamortized Gross Premium	Unamortized Gross Discount	Unamortized Net Premium/ (Discount)	Net Amortization (Expense) Income During Period
Q1: 2002	\$ 23,036	(\$32,053)	(\$9,017)	(\$3,201)
Q2: 2002	31,155	(40,301)	(9,146)	(793)
Q3: 2002	57,951	(58,397)	(446)	(2,148)
Q4: 2002	60,478	(70,140)	(9,662)	(3,083)
<b>2002</b>	<b>60,478</b>	<b>(70,140)</b>	<b>(9,662)</b>	<b>(3,083)</b>
Q1: 2003	62,812	(96,131)	(33,319)	(2,098)
Q2: 2003	95,644	(139,297)	(43,653)	3,269

\* Includes deferred bond issuance costs and net premium on long-term debt.





**Other Supplemental Financial Data (continued)**

**Table 24**  
**Differences Between GAAP Income and Estimated REIT Taxable Income**  
**(\$ in thousands)**

	For the Six Months Ended 6/30/2003	For the Year Ended 12/31/2002
GAAP Income	\$37,144	\$ 53,893
(Earnings)/losses from taxable subsidiaries	(2,230)	37
Amortization and credit expenses	12,912	21,740
Operating expenses	8,381	5,232
Provision for excise tax	862	959
Mark-to-market adjustments	1,774	(4,942)
Estimated REIT taxable income for common shareholders	\$58,843	\$ 76,919

End