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

**FORM 8-K**
**CURRENT REPORT**

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

**Date of Report (Date of earliest event reported): December 14, 2016**

# REDWOOD TRUST, INC.

(Exact name of registrant as specified in its charter)

| **Maryland** | **001-13759** | **68-0329422** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

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

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

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

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

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 5.02. Compensatory Arrangements of Certain Officers.**

(e) At a meeting held on December 14, 2016, the Compensation Committee of the Board of Directors of Redwood Trust, Inc. (the "Company") considered and approved the following compensation matters for the officers of the Company noted below. Further disclosure regarding these and other compensation matters will be included (i) in the Compensation Discussion and Analysis section of the Company's 2017 Annual Proxy Statement to be filed with the Securities and Exchange Commission ("SEC") in advance of the Company's 2017 Annual Meeting of Stockholders, which meeting is currently scheduled to take place on May 18, 2017 or (ii) in other reports filed with the Securities and Exchange Commission.

<u>2016 Year-End Long-Term Equity Compensation Awards</u> . On December 14, 2016, the Compensation Committee made 2016 year-end long-term equity compensation awards to certain officers of the Company. Two different types of equity awards were granted: Deferred Stock Units ("DSUs") and Performance Stock Units ("PSUs"). The terms of each of these two types of awards are summarized below.

- The DSUs granted on December 14, 2016 will vest over four years, with 25% of each award vesting on January 31, 2018, and an additional 6.25% vesting on the last day of each subsequent quarter (beginning with the quarter ending March 31, 2018), with full vesting of the final 6.25% on December 13, 2020. Shares of Company common stock underlying these DSUs will be distributed to the recipients in shares of common stock not later than December 31, 2020, unless distribution is electively deferred by a recipient under the terms of the Company's Executive Deferred Compensation Plan. The number of DSUs granted to each officer was determined based on a dollar amount for each award divided by the closing price of the Company's common stock on the New York Stock Exchange ("NYSE") on the grant date.

- Each DSU granted on December 14, 2016 had a grant date fair value of $15.28, which was determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made. The terms of the DSUs granted on December 14, 2016 are generally consistent with the terms of the 2015 year-end long-term equity compensation awards made to Named Executive Officers. The terms of these DSUs are set forth in the Form of Deferred Stock Unit Award Agreement (which is included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed on August 8, 2014) and the 2014 Redwood Trust, Inc. Incentive Award Plan (which is included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed on August 8, 2014) (the "2014 Incentive Plan"). The terms of the DSUs include, without limitation, provisions relating to dividend equivalent rights, forfeiture, mandatory net settlement for income tax withholding purposes, and change-in-control that are set forth in the above-referenced Form of Deferred Stock Unit Award Agreement and 2014 Incentive Plan, but which are not summarized above.

- The PSUs granted on December 14, 2016 are performance-based equity awards under which the number of underlying shares of Company common stock that vest and that the recipient becomes entitled to receive at the time of vesting will generally range from 0% to 200% of the target number of PSUs granted, with the target number of PSUs granted being adjusted to reflect the value of any dividends declared on Company common stock during the vesting period (as further described below). Vesting of these PSUs will generally occur at the end of three years (on December 13, 2019) based on four different two-year performance measurement periods and continued employment through December 13, 2019. The PSUs will be divided into four tranches with staggered two-year performance measurement periods beginning on: the grant date; the three month anniversary of the grant date; the six month anniversary of the grant date; and the nine month anniversary of the grant date, respectively. While the three-year vesting period for the PSUs is consistent with the vesting period for performance stock units granted in previous years, the use of four tranches with staggered two-year performance measurement periods is a change from the structure of performance stock units granted in previous years. This change was implemented by the Compensation Committee for this December 14, 2016 grant of PSUs to seek to better align the performance-based vesting of the PSUs with shareholder returns over the three-year vesting period for the PSUs.

  Performance-based vesting of each tranche is based on total stockholder return ("TSR") over the respective two-year performance measurement period, as follows:

- If two-year TSR is negative, then 0% of the PSUs will vest;
- If two-year TSR is 16.00%, then 100% of the PSUs will vest;
  - If two-year TSR is between 0% and 16.00%, then between 0% and 100% of the PSUs will vest determined based on a straight-line, mathematical interpolation between the applicable vesting percentages;
- If two-year TSR is greater than or equal to 71.75%, then 200% of the PSUs will vest; and
  - If two-year TSR is between 16.00% and 71.75%, 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, two-year TSR for a performance measurement period is defined as the percentage by which the Per Share Price (defined below) as of the last day of such performance measurement period has increased or decreased, as applicable, relative to the Per Share Price as of the first day of such performance measurement period, adjusted to include the impact on such increase or decrease that would be realized if all cash dividends declared on a share of Company common stock during such two-year performance measurement period were reinvested in Company common stock.

"Per Share Price" shall mean as of any date, the average of the closing prices of a share of Company common stock on the NYSE during the sixty (60) consecutive trading days ending on the trading day prior to such date.

Subject to vesting, shares of Company common stock underlying these PSUs will be distributed to the recipients not later than December 31, 2019, unless distribution is electively deferred by a recipient under the terms of the Company's Executive Deferred Compensation Plan. At the time of vesting, the value of any dividends declared during the vesting period will be reflected in the PSUs by increasing the target number of PSUs granted by an amount corresponding to the incremental number of shares of Company common stock that a stockholder would have acquired during the three-year vesting period had all dividends during that period been reinvested in Company common stock. Between the vesting of these PSUs and the delivery of the underlying shares of Company common stock, the underlying vested award shares will have attached dividend equivalent rights, resulting in the payment of dividend equivalents each time the Company declares a common stock dividend during that period.

Each PSU granted on December 14, 2016 had a grant date fair value of $13.24, which was determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made. The terms of these PSUs are set forth in the Form of Performance Stock Unit Award Agreement (which is included as Exhibit 10.2 hereto) and the 2014 Incentive Plan. The terms of the PSUs include, without limitation, provisions relating to forfeiture, retirement, mandatory net settlement for income tax withholding purposes, and change-in-control that are set forth in the above-referenced Form of Performance Stock Unit Award Agreement and 2014 Incentive Plan, but which are not summarized above.

In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2016 year-end long-term equity compensation awards granted on December 14, 2016 to the following officers of the Company are set forth in the table below:

| | Deferred Stock Units ("DSUs") | | Performance Stock Units ("PSUs") | |
|---|---|---|---|---|
| | # | Aggregate Grant Date Fair Value(1)(2) | # | Aggregate Grant Date Fair Value(1)(2) |
| Martin S. Hughes, Chief Executive Officer | 81,807 | $ 1,250,000 | 94,410 | $ 1,250,000 |
| Christopher J. Abate, President and Chief Financial Officer | 44,176 | $ 675,000 | 50,981 | $ 675,000 |
| Shoshone (Bo) Stern, Chief Investment Officer | 16,361 | $ 250,000 | 18,882 | $ 250,000 |
| Andrew P. Stone, Executive Vice President and General Counsel | 26,178 | $ 400,000 | 30,211 | $ 400,000 |

(1) Determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made.
(2) Rounded to nearest $100.00 increment.

2017 Base Salaries. On December 14, 2016, the Compensation Committee made determinations regarding the 2017 base salaries of certain officers of the Company. In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2017 base salaries of the following officers of the Company are set forth in the table below, together with the percentage increase from their 2016 base salaries:

| | 2017 Base Salary | % Change from 2016 Base Salary[1] |
|---|---|---|
| Martin S. Hughes, Chief Executive Officer | $ 750,000 | 0% |
| Christopher J. Abate, President and Chief Financial Officer | $ 550,000 | 0% |
| Shoshone (Bo) Stern, Chief Investment Officer | $ 375,000 | 0% |
| Andrew P. Stone, Executive Vice President and General Counsel | $ 400,000 | 6.7% |

(1) Percent change is calculated from the base salary in effect at December 31, 2016.

2017 Target Annual Bonuses. On December 14, 2016, the Compensation Committee made determinations regarding the 2017 target annual bonuses of certain officers of the Company. As in past years, target annual bonuses for these officers for 2017 will continue to be weighted 75% on the achievement of overall Company financial performance (which portion of the annual bonus is also referred to as the Company performance bonus) and 25% on the achievement of pre-established individual goals performance (which portion of the annual bonus is also referred to as the individual performance bonus). In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2017 target annual bonuses of the following officers of the Company are set forth in the table below, together with a comparison to their target annual bonuses for 2016.

| | 2017 Target Annual Bonus (as a % of 2017 Base Salary) | % Change from 2016 Target Annual Bonus Percentage (%)[1] | 2017 Target Annual Bonus ($) |
|---|---|---|---|
| Martin S. Hughes,<br>Chief Executive Officer | 175% | 0% | $ 1,312,500 |
| Christopher J. Abate,<br>President and Chief Financial Officer | 150% | 0% | $ 825,000 |
| Shoshone (Bo) Stern,<br>Chief Investment Officer | 125% | 0% | $ 468,750 |
| Andrew P. Stone,<br>Executive Vice President and General Counsel | 110% | 0% | $ 440,000 |

(1) Percent change is calculated from the target annual bonus in effect at December 31, 2016.

Subsequent Compensation Matter Determinations. At one or more subsequent meetings of the Compensation Committee, additional determinations regarding compensation matters for executive officers and other employees of the Company will be made. These matters will include, without limitation, determinations regarding 2016 annual Company performance bonuses, 2016 annual individual performance bonuses, and the 2017 Company performance bonus formula. As required by SEC regulations, determinations relating to these matters will be disclosed on Form 8-K (or Form 10-K) and/or within the Company's 2017 Annual Proxy Statement.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits

Exhibit 10.1 Form of Performance Stock Unit Award Agreement under 2014 Incentive Plan

## SIGNATURES

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

| | |
|---|---|
| Date: December 19, 2016 | REDWOOD TRUST, INC. |
| | By: /s/ Andrew P. Stone |
| | Andrew P. Stone |
| | Executive Vice President, General Counsel, and Secretary |

**Exhibit Index**

| Exhibit No. | Exhibit Title |
|---|---|
| 10.1 | Form of Performance Stock Unit Award Agreement under 2014 Incentive Plan |

**Exhibit 10.1**

**REDWOOD TRUST, INC.**
**PERFORMANCE STOCK UNIT AWARD AGREEMENT**

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

Pursuant to the Redwood Trust, Inc. 2014 Incentive Award Plan (as it may be amended from time to time, the "Plan"), the Compensation Committee (the "Committee") of the Board of Directors of the Company has determined that the Participant is to be granted a Performance Stock Unit award for shares of the Company's common stock, par value $0.01 per share ("Common Stock") on the terms and conditions set forth herein and on Exhibit A hereto (the "Award"), and the Company hereby grants such Award. This Award is being made in connection with a deferral of compensation by the Participant pursuant to the Redwood Trust, Inc. Executive Deferred Compensation Plan (the "Deferred Compensation Plan") and the executed Deferral Election attached hereto as Exhibit B (the "Deferral Election"). Any capitalized terms not defined herein shall have the meaning set forth in the Plan or the Deferred Compensation Plan, as applicable.

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

2. **Effect of Dividends on Target Shares.** Except as set forth under the heading "Dividends" in Exhibit A hereto, on the applicable vesting date, the number of Target Shares for each tranche set forth in Exhibit A shall automatically be increased to reflect all cash dividends, if any, which have been declared and/or paid to all or substantially all holders of the outstanding shares of Common Stock during the period beginning on the date of this Award Agreement and ending on the vesting date (the "Dividend Vesting Period"). On such date, the Target Shares for each tranche shall be automatically increased by an aggregate number of shares determined by multiplying (x) the number of Target Shares for each tranche set forth in Exhibit A by (y) the Target Share Dividend Reinvestment Factor (as defined below).

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

Any amounts that may become payable in respect of this Section 2 shall be treated separately from the Award Shares and the rights arising in connection therewith for purposes of Section 409A of the Code.

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

No Award Shares shall be credited to the Participant's Deferral Account unless the Committee determines, in its sole discretion, whether and to what extent the Performance Goals set forth in Exhibit A have been attained and the number of Award Shares earned pursuant to the Award have been determined and have vested in accordance with the provisions of Exhibit A. Any shares of Common Stock in respect of Award Shares vested and credited to the Participant's Deferral Account shall be delivered to the Participant at the time or times provided in the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A of the Code and the terms of the Deferred Compensation Plan). [In connection with the delivery of Award Shares to the Participant, the Participant and the Company agree that delivery of such Award Shares shall be net of a number of such shares which shall be forfeited by the Participant in order to satisfy the applicable tax withholding obligation relating to such delivery to the Participant.]

4. **Forfeiture of Performance Stock Units**.

(a) Except as otherwise may be provided in Exhibit A under subclause (i) of "Vesting (Change in Control)", upon (i) the Participant's Retirement (as defined below) or (ii) the Participant's Termination of Service as an Employee by the Company without Cause (as defined below), in any case, prior to expiration of the three year period beginning on the date of this Award Agreement (the "Vesting Period"), the Target Shares shall be reduced on a pro-rata basis to reflect the number of days of employment completed during the Vesting Period. In the event any such termination occurs prior to the end of an applicable Performance Period, the Award tranche related to such Performance Period shall continue to be eligible to vest and become payable based on such prorated number of Target Shares for such tranche and the Performance Goals in accordance with the provisions of Exhibit A.

(b) Upon the Participant's Termination of Service as an Employee due to death or Disability (or, if the Participant is party to an employment agreement with the Company, in accordance with such employment agreement in the case of a Termination of Service for "Good Reason", as defined in such employment agreement) prior to expiration of the Vesting Period, the Target Shares shall not be reduced. In the event any such termination occurs prior to the end of an applicable Performance Period, the Award tranche related to such Performance Period shall continue to be eligible to vest and become payable based on the number of Target Shares for such tranche and the Performance Goals in accordance with the provisions of Exhibit A.

(c) Except as otherwise may be provided in Exhibit A hereto or in an employment agreement between the Participant and the Company, upon the Participant's Termination of Service as an Employee for any reason other than death, Disability, Retirement or without Cause, prior to expiration of the Vesting Period, all Award Shares shall become ineligible for crediting to the Participant's Deferral Account and shall be forfeited.

(d) Any Award Shares which have vested and been credited to the Participant's Deferral Account prior to (or in connection with) the Participant's Termination of Service as an Employee shall not be forfeited in the event of such Termination of Service as an Employee but rather delivery of such shares shall continue to be governed by the terms of the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A of the Code and the terms of the Deferred Compensation Plan).

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

For purposes of this Award Agreement, "Retirement" shall mean a Termination of Service as an Employee due to retirement (as determined by the Committee in its sole discretion) if such Termination of Service as an Employee (i) occurs on or after the completion by the Participant of 10 years of employment with the Company (which employment need not be continuous), and (ii) the sum of the Participant's age and years of employment as an Employee equals or exceeds 70 (in each case measured in years, rounded down to the nearest whole number).

**5.** **Adjustments.** This Award and the Performance Goals shall be subject to adjustment as set forth in this Award Agreement and the Plan.

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

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

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

**9.** **Existing Agreements.** This Award Agreement does not supersede nor does it modify any existing agreements between the Participant and the Company. [Notwithstanding the foregoing, if the Participant is a party to an employment agreement with the Company that includes provisions relating to the treatment of equity awards upon termination of the Participant's employment with the Company, then (i) the terms of this Award Agreement shall supersede the terms of such employment agreement solely with respect to the treatment of the Performance Stock Unit award granted hereby upon termination of the Participant's employment with the Company due to Retirement as defined herein; and (ii) except as set forth on Exhibit A under "Vesting (Change in Control)", the terms of such employment agreement shall supersede the terms of this Award Agreement solely with respect to the treatment of the Performance Stock Unit award granted hereby upon termination of the Participant's employment with the Company for any other reason.]

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

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

12. **Withholding.** To the extent that any Federal Insurance Contributions Act tax withholding obligations arise in connection with the Award prior to the applicable vesting date, the Administrator shall accelerate the payment of a portion of the Award sufficient to satisfy (but not in excess of) such tax withholding obligations and any tax withholding obligations associated with any such accelerated payment, and the Administrator shall withhold such amounts in satisfaction of such withholding obligations.

13. **Section 409A**. Notwithstanding anything to the contrary in this Award Agreement, no amounts shall be paid to the Participant under this Award Agreement during the six (6)-month period following the Participant's "separation from service" (within the meaning of Section 409A of the Code) to the extent that the Administrator determines that the Participant is a "specified employee" (within the meaning of Section 409A of the Code) at the time of such separation from service and that paying such amounts at the time or times indicated in this Award Agreement would be a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six (6)-month period (or such earlier date upon which such amount can be paid under Section 409A of the Code without being subject to such additional taxes), the Company shall pay to the Participant in a lump-sum all amounts that would have otherwise been payable to the Participant during such six (6)-month period under this Award Agreement.

[*Signature page follows*.]

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

**REDWOOD TRUST, INC.**

By: ________________________________

Andrew P. Stone
General Counsel & Corporate Secretary
One Belvedere Place, Suite 300
Mill Valley, CA 94941

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

________________________________

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

**Exhibit A**
**Performance Goals**

**Target Shares:** the number of Target Shares per tranche is set forth below, in each case as the number may be adjusted to reflect cash dividends declared and/or paid on the Common Stock pursuant to Section 2 of the Award Agreement:

**Tranche A:** _____ target shares

**Tranche B:** _____ target shares

**Tranche C:** _____ target shares

**Tranche D:** _____ target shares

**Performance Period:** The performance period for each tranche begins on the commencement date set forth below and ends on the earlier to occur of (i) the end date set forth below or (ii) the consummation of a Change in Control (each, a "Performance Period"):

**Tranche A:** begins [*insert grant date*] and ends on [*insert one day prior to 2nd anniversary of grant date*]

**Tranche B:** begins [*insert grant date plus three months*] and ends on [*insert one day prior to 2nd anniversary of grant date plus three months*]

**Tranche C:** begins [*insert grant date plus six months*] and ends on [*insert one day prior to 2nd anniversary of grant date plus six months*]

**Tranche D:** begins [*insert grant date plus nine months*] and ends on [*insert one day prior to 2nd anniversary of grant date plus nine months*]

**Performance Goals:** For each tranche, the number of Award Shares which will be eligible for vesting and crediting to the Participant's Deferral Account, if any, for the applicable Performance Period shall be determined based upon the Company's cumulative total shareholder return ("TSR", as defined below) for the applicable Performance Period in accordance with the following schedule:

| Total Shareholder Return Goal ("TSR Goal") | % of Target Shares Creditable per Tranche ("Creditable Award Shares") |
|---|---|
| Less than [0]% | [0]% |
| [16.00]% | [100]% |
| [71.75]% or greater | [200]% |

If the actual performance results fall between [0]% and [16.00]% TSR, or between [16.00]% and [71.75]% TSR, the actual number of Creditable Award Shares shall be determined based on a straight-line, mathematical interpolation between the applicable percentages. With respect to each tranche, in no event shall the number of Creditable Award Shares exceed [200]% of the applicable number of Target Shares. In the event the TSR is equal to or less than [0]% at the end of a Performance Period, all Award Shares for such tranche shall become ineligible for crediting to the Participant's Deferral Account and shall be forfeited. For each tranche, any Award Shares that are not eligible for vesting as of the end of the applicable Performance Period likewise shall become ineligible for crediting to the Participant's Deferral Account and shall be forfeited.

Notwithstanding the foregoing paragraph, in the event that (i) a Performance Period ends upon a Change in Control and (ii) the Participant either remains in continuous employment until immediately prior to such Change in Control or experiences a Termination of Service as an Employee prior to such Change in Control and the Award Shares are not subject to forfeiture in connection with such termination under Section 4(c) of this Award Agreement (including without limitation in connection with a Termination of Service by the Participation for Good Reason in accordance with the Participant's employment agreement), then the number of Creditable Award Shares will be determined by reference to the applicable TSR Goal, pro-rated on an annualized basis to reflect the shortened Performance Period. For example, if a Change in Control occurs one year after the commencement date of a Performance Period, then the TSR Goal to earn [100]% of the Target Shares for the applicable tranche would equal [7.72]% and the TSR Goal to earn [200]% of the Target Shares for such tranche would equal [31.04]%.

**Vesting (no Change in Control)**: If there is no Change in Control during the Vesting Period, then any Creditable Award Shares shall vest and be credited to the Participant's Deferral Account on the last day of the Vesting Period, subject to the Participant's continued employment through such date.

However, in the event the Participant experiences a Termination of Service as an Employee by the Company without Cause (or, if the Participant is party to an employment agreement with the Company, by the Participant for Good Reason) or due to the Participant's Retirement, death or Disability, in any case, prior to the last day of the Vesting Period, then any Award Shares held by the Participant that are Creditable Award Shares as of such termination date or that become Creditable Award Shares following the termination date in accordance with this Award Agreement (or, if the Participant is party to an employment agreement with the Company, in accordance with such employment agreement in the case of a Termination of Service for Good Reason) may be reduced in accordance with Section 4(a) of this Award Agreement and, in any such event, shall vest and be credited to the Participant's Deferral Account on the later of such termination date or the last day of the applicable Performance Period.

**Vesting (Change in Control)**: If a Change in Control occurs during the Vesting Period and:

(i) the Participant remains in continuous employment until immediately prior to such Change in Control, then any Creditable Award Shares held by the Participant as of or due to the Change in Control shall remain outstanding and eligible to vest and be credited to the Participant's Deferral Account on the last day of the Vesting Period, subject to continued employment through such date. However, if the Participant experiences a Qualifying Termination (as defined below) following such Change in Control but prior to or on the last day of the Vesting Period, then any Creditable Award Shares shall vest and be credited to the Participant's Deferral Account as of such termination; or

(ii) the Participant experienced a Termination of Service as an Employee, prior to the date of the Change in Control, due to death, Disability, Retirement, without Cause, or, if the Participant is party to an employment agreement with the Company, for Good Reason, in any case, then any Creditable Award Shares held by the Participant as of or due to the Change in Control shall vest immediately prior to such Change in Control and shall be credited to the Participant's Deferral Account on the date of such Change in Control.

Notwithstanding the foregoing, in the event that a successor corporation in a Change in Control refuses to assume or substitute for the Award, then any Creditable Award Shares held by the Participant as of or due to the Change in Control shall vest immediately prior to such Change in Control and shall be credited to the Participant's Deferral Account on the date of such Change in Control.

**Dividends**: In the event a Change in Control occurs during the Vesting Period and a successor corporation in such Change in Control assumes or substitutes for the Award, then the number of Target Shares for each tranche shall be increased to reflect all cash dividends, if any, which have been declared and/or paid to all or substantially all holders of the outstanding shares of Common Stock (and/or shares of common stock of the successor corporation, as applicable) during the period beginning on (and including) the date of this Award Agreement and ending on (and including) the applicable vesting date (such period, the "CIC Vesting Period"). On such vesting date, the Target Shares for each tranche shall be automatically increased by an aggregate number of shares determined by multiplying the number of Target Shares for each tranche by the Target Share Dividend Reinvestment Factor. Any calculations made pursuant to this paragraph shall contemplate any necessary adjustments to the number of Target Shares for each tranche in accordance with Section 14.2 of the Plan in connection with such Change in Control.

Any amounts that may become payable in respect of this "Dividend" provision shall be treated separately from the Creditable Award Shares and the rights arising in connection therewith for purposes of Section 409A of the Code.

**<u>Definitions</u>:**

"<u>TSR</u>" shall mean, for each Performance Period, the Company's cumulative total shareholder return (rounded to the nearest hundredth), expressed as a percentage determined as the quotient obtained by dividing:

(A) the sum of:

(x) the Per Share Price as of the Valuation Date for such Performance Period, plus

(y) the Per Share Price as of the Valuation Date for such Performance Period multiplied by the TSR Dividend Reinvestment Factor,

by,

(B) The average of the closing prices of the Company's Common Stock during the sixty (60) consecutive trading days ending on the day prior to the first day of such Performance Period, as set forth below for each tranche:

Tranche A: $______

Tranche B: Average of the closing prices of the Company's Common Stock during the sixty (60) consecutive trading days ending on ____, 20__

Tranche C: Average of the closing prices of the Company's Common Stock during the sixty (60) consecutive trading days ending on ____, 20__

Tranche D: Average of the closing prices of the Company's Common Stock during the sixty (60) consecutive trading days ending on ____, 20__

Notwithstanding the foregoing, the Committee shall make appropriate adjustments in calculating TSR to reflect any dividends which may be declared during the sixty (60) consecutive trading days prior to the end of a Performance Period, as determined by the Committee in its sole discretion.

"<u>Per Share Price</u>" shall mean the average of the closing prices of the Company's Common Stock during the sixty (60) consecutive trading days ending on the day prior to the applicable Valuation Date; *provided, however*, that for purposes of calculating the Per Share Price in the event of a Change in Control the Per Share Price shall be the price per share of Common Stock paid in connection with such Change in Control or, to the extent that the consideration in the Change in Control transaction is paid in stock of the acquiror or its affiliate, then, unless otherwise determined by the Administrator (including in connection with valuing any shares that are not publicly traded), Per Share Price shall mean the value of the consideration paid per share of Common Stock based on the average of the closing trading prices of a share of such acquiror stock on the principal exchange on which such shares are then traded for each trading day during the five consecutive trading days ending on and including the date on which a Change in Control occurs.

"<u>Valuation Date</u>" means with respect to each Performance Period, the last day of such Performance Period, as set forth below for each tranche*provided, however*, that in the event of a Change in Control that occurs prior to the last day of a Performance Period, the Valuation Date shall mean the date of the Change in Control.

Tranche A: [*<u>insert one day prior to 2nd anniversary of grant date</u>*]

Tranche B: [*<u>insert one day prior to 2nd anniversary of grant date plus three months</u>*]

Tranche C: [*insert one day prior to 2nd anniversary of grant date plus six months*]

Tranche D: [*insert one day prior to 2nd anniversary of grant date plus nine months*]

"Qualifying Termination" means a Participant's Termination of Service as an Employee (i) due to the Participant's death, Disability or Retirement or (ii) within 24 months following a Change in Control, either by the Company without Cause or, if the Participant is party to an employment agreement with the Company, by the Participant for Good Reason.

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