

REDWOOD TRUST INC  
Form 8-K  
December 02, 2010

---

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): November 30, 2010

---

REDWOOD TRUST, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other  
jurisdiction of  
incorporation)

001-13759  
(Commission File Number)

68-0329422  
(I.R.S. Employer  
Identification No.)

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

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

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

---

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

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



Item 5.02. Compensatory Arrangements of Certain Officers.

(e) At a meeting held on November 30, 2010, the Compensation Committee of the Board of Directors of Redwood Trust, Inc. (the "Company") considered and approved the following compensation matters for the officers of the Company noted below. Further disclosure regarding these and other compensation matters will be included in the Compensation Discussion and Analysis section of the Company's 2011 Annual Proxy Statement to be filed with the Securities and Exchange Commission ("SEC") in advance of the Company's 2011 Annual Meeting of Stockholders, which meeting is currently scheduled to take place in May 2011.

2010 Year-End Long-Term Equity Compensation Awards. In accordance with its previously disclosed policy and practice, on November 30, 2010, the Compensation Committee made 2010 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 November 30, 2010 will vest over four years, with 25% of each award vesting on January 1, 2012, and an additional 6.25% vesting on the first day of each subsequent quarter, with full vesting on January 1, 2015. The shares of Company common stock underlying these DSUs will be distributed to the recipients in shares of common stock on May 1, 2015, unless distribution is electively deferred by a recipient under the terms of the Company's Executive Deferred Compensation Plan. The number of DSUs granted to each officer was determined based on a dollar amount for each award divided by the closing price of the Company's common stock on the New York Stock Exchange ("NYSE") on the trading day immediately prior to grant.

Each DSU granted on November 30, 2010 had a grant date fair value of \$13.99, 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 November 30, 2010 are generally consistent with the terms of the 2009 year-end long-term equity compensation awards made to Named Executive Officers. The foregoing description of the terms of these DSUs is qualified in its entirety by reference to the Form of Deferred Stock Unit Award Agreement attached hereto as Exhibit 10.1 (which is incorporated by reference into this Item 5.02) and the 2002 Redwood Trust, Inc. Incentive Plan (which is incorporated by reference into this Item 5.02 from the Company's Current Report on Form 8-K, Exhibit 10.1, filed on May 19, 2010). Without limiting the foregoing sentence, the terms of the DSUs include, without limitation, provisions relating to dividend equivalent rights, forfeiture, and change-in-control that are set forth in the above-referenced Form of Deferred Stock Unit Award Agreement and 2002 Redwood Trust, Inc. Incentive Plan, but which are not summarized above.

- The PSUs granted on November 30, 2010 are performance-based equity awards under which the number of underlying shares of Company common stock that vest and that the recipient becomes entitled to receive at the time of vesting will generally range from 0% to 200% of the target number of PSUs granted, with the target number of PSUs granted being adjusted to reflect the value of any dividends paid on Company common stock during the vesting period (as further described below). Vesting of these PSUs will generally occur at the end of three years (on November 30, 2013) based on three-year total stockholder return ("TSR"), as follows:
  - o If three-year TSR is negative, then 0% of the PSUs will vest;
  - o If three-year TSR is 25%, then 100% of the PSUs will vest;

§ If three-year TSR is between 0% and 25%, then between 0% and 100% of the PSUs will vest determined based on a straight-line, mathematical interpolation between the applicable vesting percentages;

Edgar Filing: REDWOOD TRUST INC - Form 8-K

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

§ If three-year TSR is between 25% and 125%, then between 100% and 200% of the PSUs will vest determined based on a straight-line, mathematical interpolation between the applicable vesting percentages.

Under the terms of the PSUs, three-year TSR is defined as the percentage by which the Per Share Price (defined below) as of November 30, 2013 has increased or decreased, as applicable, relative to the Per Share Price as of November 30, 2010 (\$14.14), adjusted to include the impact on such increase or decrease that would be realized if all cash dividends paid on a share of Company common stock during such three-year period were reinvested in Company common stock on the applicable dividend payment dates.

---

“Per Share Price” shall mean as of any date, the average of the closing prices of a share of Company common stock on the NYSE during the twenty (20) consecutive trading days ending on the trading day prior to such date.

Subject to vesting, the shares of Company common stock underlying these PSUs will be distributed to the recipients on May 1, 2014, unless distribution is electively deferred by a recipient under the terms of the Company’s Executive Deferred Compensation Plan. At the time of vesting, the value of any dividends paid during the vesting period will be reflected in the PSUs by increasing the target number of PSUs granted by an amount corresponding to the incremental number of shares of Company common stock that a stockholder would have acquired during the three-year TSR measurement period had all dividends during that period been reinvested in Company common stock on the applicable dividend payment dates. Between the vesting of these PSUs and the delivery of the underlying shares of Company common stock, the underlying vested award shares will have attached dividend equivalent rights, resulting in the payment of dividend equivalents each time the Company pays a common stock dividend during that period.

Each PSU granted on November 30, 2010 had a grant date fair value of \$14.01, which was determined in accordance with FASB Accounting Standards Codification Topic 718 at the time the grant was made. The foregoing description of the terms of these PSUs is qualified in its entirety by reference to the Form of Performance Stock Unit Award Agreement attached hereto as Exhibit 10.2 (which is incorporated by reference into this Item 5.02) and the 2002 Redwood Trust, Inc. Incentive Plan (which is incorporated by reference into this Item 5.02 from the Company’s Current Report on Form 8-K, Exhibit 10.1, filed on May 19, 2010). Without limiting the foregoing sentence, the terms of the PSUs include without limitation, provisions relating to forfeiture and change-in-control that are set forth in the above-referenced Form of Performance Stock Unit Award Agreement and 2002 Redwood Trust, Inc. Incentive Plan, but which are not summarized above.

In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2010 year-end long-term equity compensation awards granted on November 30, 2010 to the following officers of the Company are set forth in the table below:

	Deferred Stock Units (“DSUs”)		Performance Stock Units (“PSUs”)	
	#	Aggregate Grant Date Fair Value(1)	#	Aggregate Grant Date Fair Value(1)
Martin S. Hughes, President & Chief Executive Officer	80,358	\$ 1,124,213	80,358	\$ 1,125,787
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	57,144	\$ 799,440	57,144	\$ 800,560
Diane L. Merdian, Chief Financial Officer	18,750	\$ 262,316	18,750	\$ 262,684
Harold F. Zagunis, Chief Risk Officer	18,750	\$ 262,316	18,750	\$ 262,684
Christopher J. Abate, Controller	9,650	\$ 135,000	–	\$ –

(1)

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

The 2010 year-end long-term equity compensation awards granted on November 30, 2010 and set forth in the table above are consistent with the Compensation Committee's prior commitment regarding performance-based equity awards, which was set forth on page 32 of the Company's 2010 Annual Proxy Statement. That commitment provided for at least 50% of the 2010 year-end long-term equity compensation awards granted to officers who would be Named Executive Officers ("NEOs") with respect to the 2010 annual compensation cycle to be performance-based equity awards that would vest or be delivered based on the achievement of metric-based performance targets established by the Compensation Committee at the time of grant. Mr. Abate, who was an NEO with respect to the 2009 annual compensation cycle, will not be an NEO with respect to the 2010 annual compensation cycle and, therefore, did not receive a performance-based equity award as part of his 2010 year-end long-term equity compensation award.

---

2011 Base Salaries. In accordance with its previously disclosed policy and practice, on November 30, 2010, the Compensation Committee made determinations regarding the 2011 base salaries of certain officers of the Company. In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2011 base salaries of the following officers of the Company are set forth in the table below, together with the percentage increase from their 2010 base salaries:

	2011 Base Salary	% Change from 2010 Base Salary
Martin S. Hughes, President & Chief Executive Officer	\$ 700,000	0%
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	\$ 500,000	0%
Diane L. Merdian, Chief Financial Officer	\$ 400,000	0%
Harold F. Zagunis, Chief Risk Officer	\$ 400,000	0%

2011 Target Annual Bonuses. In accordance with its previously disclosed policy and practice, on November 30, 2010, the Compensation Committee made determinations regarding the 2011 target annual bonuses of certain officers of the Company. As in past years, target annual bonuses for 2011 will continue to be weighted 75% on the achievement of overall Company financial performance and 25% on the achievement of pre-established individual goals. In accordance with the requirements of Item 5.02(e) of Form 8-K, the 2011 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 2010.

	2011 Target Annual Bonus (as a % of Base Salary)	2010 Target Annual Bonus (\$)	% Change from 2010 Target Annual Bonus
Martin S. Hughes, President & Chief Executive Officer	165%	\$ 1,155,000	0%
Brett D. Nicholas, Chief Operating Officer, Chief Investment Officer & Executive Vice President	150%	\$ 750,000	0%
Diane L. Merdian, Chief Financial Officer	100%	\$ 400,000	33%
Harold F. Zagunis, Chief Risk Officer	100%	\$ 400,000	33%

Edgar Filing: REDWOOD TRUST INC - Form 8-K

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 2010 annual Company performance bonuses, 2010 annual individual performance bonuses, and the 2011 annual company performance bonus formula. As required by SEC regulations, determinations relating to these matters will be disclosed on Form 8-K (or Form 10-K) and/or within the Company's 2011 Annual Proxy Statement.

---



Item 8.01. Other Events.

In connection with the Company filing with the SEC on November 4, 2010 a prospectus supplement dated November 4, 2010 relating to the Company's Direct Stock Purchase and Dividend Reinvestment Plan, the Company is filing the opinion dated November 30, 2010 of its Maryland counsel, Venable LLP, regarding the legality of the shares of common stock issued in connection therewith. The opinion is filed as Exhibit 5.1 hereto and is incorporated herein by reference and is also hereby being filed as an exhibit to, and is hereby incorporated by reference in, the Company's Registration Statement on Form S-3, File No. 333-168617.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit 5.1	Opinion of Venable LLP
Exhibit 10.1	Form of Deferred Stock Unit Award Agreement under 2002 Incentive Plan
Exhibit 10.2	Form of Performance Stock Unit Award Agreement under 2002 Incentive Plan
Exhibit 23.1	Consent of Venable LLP (contained in its opinion filed as Exhibit 5.1)

---

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 2, 2010

REDWOOD TRUST, INC.

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

---

Exhibit Index

Exhibit No.	Exhibit Title
5.1	Opinion of Venable LLP
10.1	Form of Deferred Stock Unit Award Agreement under 2002 Incentive Plan
10.2	Form of Performance Stock Unit Award Agreement under 2002 Incentive Plan
23.1	Consent of Venable LLP (contained in its opinion filed as Exhibit 5.1)

---