

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name REDWOOD TRUST, INC.		2 Issuer's employer identification number (EIN) 68-0329422	
3 Name of contact for additional information MIKE McMAHON	4 Telephone No. of contact (415) 384-3805	5 Email address of contact mike.mcmahon@redwoodtrust.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact ONE BELEVEDERE PLACE, SUITE 300		7 City, town, or post office, state, and Zip code of contact MILL VALLEY, CA 94941	
8 Date of action 4/21/11, 7/21/11, 10/21/11, & 12/27/11		9 Classification and description RETURN OF BASIS DISTRIBUTION	
10 CUSIP number 758075402	11 Serial number(s)	12 Ticker symbol RWT	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ **FOR THE COMMON SHAREHOLDERS OF RECORD ON MARCH 31, 2011, JUNE 30, 2011, SEPTEMBER 30, 2011, AND DECEMBER 15, 2011, ISSUER DISTRIBUTED CASH ON APRIL 21, 2011, JULY 21, 2011, OCTOBER 21, 2011, AND DECEMBER 27, 2011 RESPECTIVELY. THE AMOUNT DISTRIBUTED WAS \$0.25 PER SHARE ON EACH DISTRIBUTION DATE. A PORTION OF EACH DISTRIBUTION WAS A TAXABLE DIVIDEND AND THE REMAINING PORTION WAS A RETURN OF BASIS DISTRIBUTION, WHICH REDUCES THE BASIS OF THE SHARES HELD BY EACH SHAREHOLDER.**

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ **THE RETURN OF BASIS DISTRIBUTION WAS \$0.1887 PER SHARE ON EACH DISTRIBUTION DATE.**

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ **ISSUER HAD EARNINGS AND PROFITS OF \$19,268,800 AND DISTRIBUTED \$78,557,820 IN 2011; THEREFORE, 75.48% OF EACH DISTRIBUTION WAS RETURN OF BASIS DISTRIBUTION. THIS EQUATES TO \$0.1887 PER SHARE OF EACH QUARTERLY DISTRIBUTION BEING A RETURN OF BASIS DISTRIBUTION.**

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ _____

RETURN OF BASIS DISTRIBUTION - IRC SECTION 301(c)(2)

TAXABLE CASH DIVIDEND - IRC SECTION 301(c)(1) AND IRC SECTION 316

18 Can any resulting loss be recognized? ▶ NO LOSS CAN BE RECOGNIZED AS A RESULT OF THE CASH DISTRIBUTIONS TO THE COMMON SHAREHOLDERS.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ THE REPORTABLE TAX YEAR RELATED TO THE ORGANIZATIONAL ACTIONS AFFECTING THE BASIS OF SECURITIES IS CALENDAR YEAR 2011.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶

Date ▶

2-29-12

Print your name ▶ CHRISTOPHER J. ABATE

Title ▶ MANAGING DIRECTOR & CONTROLLER

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	