

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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): August 4, 2010

Two Harbors Investment Corp.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation)

001-34506
(Commission
File Number)

27-0312904
(I.R.S. Employer
Identification No.)

601 Carlson Parkway, Suite 330
Minnetonka, MN 55305
(Address of principal executive offices)
(Zip Code)

Registrant's telephone number, including area code: **(612) 238-3300**

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:

- 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))
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Item 2.02 Results of Operations and Financial Condition

On August 4, 2010, Two Harbors Investment Corp. (“Two Harbors”) issued a press release announcing its financial results for the fiscal quarter ended June 30, 2010. A copy of the press release and the 2010 Second Quarter Earnings Call Presentation, are attached hereto as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

The information in this Current Report, including Exhibits 99.1 and 99.2 attached hereto, is furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed to be “filed” for any other purpose, including for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in Item 2.02 of this Current Report, including Exhibits 99.1 and 99.2, shall not be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filings (unless the registrant specifically states that the information or exhibit in this particular Current Report is incorporated by reference).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

| Exhibit No. | Description |
|--------------------|---|
| 99.1 | Press Release, dated August 4, 2010, issued by Two Harbors Investment Corp. announcing Second Quarter 2010 results. |
| 99.2 | 2010 Second Quarter Earnings Call Presentation |

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 hereunto duly authorized.

TWO HARBORS INVESTMENT CORP.

By: /s/ TIMOTHY W. O'BRIEN

Timothy O'Brien
Secretary and General Counsel

Date: August 4, 2010



Two Harbors Investment Corp. Reports Second Quarter 2010 Financial Results

NEW YORK, August 4, 2010 – [Two Harbors Investment Corp.](#) (NYSE Amex: TWO; TWO.WS), a real estate investment trust that invests in residential mortgage-backed securities, today announced its financial results for the quarter ended June 30, 2010.

Second Quarter 2010 Highlights:

- Portfolio delivered average annualized yield of 5.4%, an approximate 45 basis point increase over the prior quarter yield.
- Agency securities avoided the impact of GSE buyouts and experienced a three-month average Constant Prepayment Rate of 12.5%.
- Reduced weighted operating expense ratio by approximately 100 basis points through the raise of additional capital.
- Declared a dividend of \$0.33 per common share, or 16% dividend yield, based upon June 30, 2010, closing price of \$8.25.

“April marked an important milestone for Two Harbors” said Thomas Siering, Two Harbors’ President and Chief Executive Officer. “The completion of the secondary offering, which raised net proceeds of \$107 million, enabled the company to expand its portfolio while simultaneously realizing economies of scale through an approximate 100 basis point reduction in operating expenses. As we enter into the second half of 2010, we believe the portfolio’s full earnings potential will drive realized earnings and cash flow, providing attractive dividends to our shareholders.”

Operating Performance

The following table summarizes the company’s GAAP and non-GAAP earnings measurements and key metrics for the respective periods in 2010:

Two Harbors Operating Performance (dollars in thousands, except per share data)

| | Q1-2010 | | | Q2-2010 | | | Q2 YTD 2010 | | |
|--|----------|-------------------------------------|--------------------------|----------|-------------------------------------|--------------------------|-------------|-------------------------------------|--------------------------|
| | Earnings | Earnings per diluted weighted share | Return on average equity | Earnings | Earnings per diluted weighted share | Return on average equity | Earnings | Earnings per diluted weighted share | Return on average equity |
| Earnings | | | | | | | | | |
| Core Earnings ¹ | \$ 3,929 | \$ 0.29 | 12.6% | \$ 5,764 | \$ 0.26 | 11.4% | \$ 9,693 | \$ 0.54 | 11.9% |
| GAAP Net Income | \$ 5,327 | \$ 0.40 | 17.1% | \$ 4,088 | \$ 0.18 | 8.1% | \$ 9,415 | \$ 0.52 | 11.5% |
| Adjusted GAAP Earnings ² | \$ 6,072 | \$ 0.45 | 19.5% | \$ 6,777 | \$ 0.30 | 13.4% | \$ 12,848 | \$ 0.72 | 15.7% |
| Comprehensive Income | \$ 8,827 | \$ 0.66 | 28.3% | \$ 3,360 | \$ 0.15 | 6.7% | \$ 12,187 | \$ 0.68 | 14.9% |
| Operating Metrics | | | | | | | | | |
| | | Q1-2010 | Q2-2010 | | | | | | |
| Dividend per common share | \$ | 0.36 | 0.33 | | | | | | |
| Book value per diluted share at period end | \$ | 9.38 | 8.70 | | | | | | |
| Expenses as a percentage of average equity | | 3.2% | 2.2% | | | | | | |

(1) Core Earnings is a non-GAAP measure that the Company defines as net income, excluding impairment losses, gains or losses on sales of securities, unrealized gains or losses on interest rate swaps, gains or losses on other derivative instruments and certain non-recurring expenses.

(2) Adjusted GAAP Earnings is a non-GAAP measure that the Company defines as GAAP Net Income excluding the unrealized fair value gains and losses associated with the Company's interest rate swaps.

Earnings Summary

Two Harbors reported Core Earnings for the quarter ended June 30, 2010 of \$5.8 million or \$0.26 per diluted weighted average common share outstanding, as compared to Core Earnings for the quarter ended March 31, 2010 of \$3.9 million or \$0.29 per diluted weighted average common share outstanding.

During the quarter, the company sold residential mortgage-backed securities (RMBS) for \$14.9 million with an amortized cost of \$14.1 million for a net realized gain of \$0.8 million. In addition, the company recognized in earnings an unrealized loss, net of tax, of \$2.7 million associated with its interest rate swaps, and net gains on other derivative instruments of approximately \$0.2 million.

The company reported GAAP net income of \$4.1 million or \$0.18 per diluted weighted average share outstanding for the quarter ended June 30, 2010, as compared to \$5.3 million or \$0.40 per diluted weighted average share outstanding for the quarter ended March 31, 2010. On a GAAP basis, the company provided an annualized return on average equity of 8.1% and 17.1% for the quarters ended June 30, 2010 and March 31, 2010, respectively.

“Management considers Adjusted GAAP Earnings and comprehensive income as the leading indicators of the company’s operating performance,” said Jeff Stolt, Two Harbors’ Chief Financial Officer. “We believe Adjusted GAAP Earnings best represents the company’s realized earnings and cash flow necessary to declare and pay its dividend. We believe comprehensive income is the best GAAP measure of the overall performance of the company.”

Two Harbors reported Adjusted GAAP Earnings for the quarter ended June 30, 2010, of \$6.8 million or \$0.30 per diluted weighted average common share outstanding as compared to Adjusted GAAP Earnings for the quarter ended March 31, 2010, of \$6.1 million or \$0.45 per diluted weighted average common share outstanding. On an Adjusted GAAP Earnings basis, the company recognized an annualized return on average equity of 13.4% and 19.5% for the comparative periods. “Adjusted GAAP Earnings” represents a non-GAAP measure and is defined as GAAP net income (loss) exclusive of unrealized gains and losses from interest rate swaps.

The company reported comprehensive income of \$3.4 million or \$0.15 per diluted weighted average share outstanding for the quarter ended June 30, 2010, as compared to comprehensive income of \$8.8 million or \$0.66 per diluted weighted average share outstanding for the quarter ended March 31, 2010. The decrease is primarily attributable to unrealized mark-to-market losses associated with our interest rate swaps, the dilutive impacts of April’s stock offering and portfolio construction costs in the form of “bid-offer” spreads that were incurred during deployment of the capital raised in the offering. On a comprehensive income basis, the company recognized an annualized return on average equity of 6.7% and 28.3% for the comparative periods. For the first two quarters of 2010, the annualized return on average equity is 14.9%.

Other Key Operating Metrics

Two Harbors declared a quarterly dividend of \$0.33 per common share for the quarter ended June 30, 2010 and \$0.36 per common share for the quarter ended March 31, 2010. The annualized dividend yield on the company's common stock for the quarter ended June 30, 2010, based on the June 30, 2010 closing price of \$8.25, was 16.0%.

The company's book value per diluted share, after giving effect to the second quarter \$0.33 dividend, was \$8.70 as of June 30, 2010, compared to \$9.38 as of March 31, 2010. The decrease is primarily attributable to the aforementioned effects of the stock offering in the second quarter and unrealized losses from interest rate swaps, in addition to "bid-offer" spreads attendant to and lead times associated with deployment of the new capital. The quarterly numbers do not capture the full earnings potential for the portfolio as the incremental capital was earning income in the portfolio for only 31 days on a weighted average basis. Two Harbors has now completed the investment of the proceeds from the stock offering.

Operating expenses for the second quarter were approximately \$1.1 million, or 2.2% of average equity, compared to approximately \$1.0 million, or 3.2%, for the first quarter.

Portfolio Summary

For the quarter ended June 30, 2010, the annualized yield on average RMBS available-for-sale securities was 5.4% and the annualized cost of funds on the average borrowings was 0.6%, which resulted in a net interest rate spread of 4.8%. This is an approximate 35 basis point increase over the annualized interest rate spread for the quarter ended March 31, 2010. The company reported debt-to-equity, defined as total borrowings to fund RMBS and Agency derivatives divided by total equity, of 3.2:1.0 and 3.6:1.0 at June 30, 2010 and March 31, 2010, respectively.

In the second quarter, the company deployed proceeds from its April capital raise which resulted in a RMBS portfolio as of June 30, 2010 with a total value of \$832.4 million, comprised of \$637.8 million Agency RMBS and \$194.7 million non-Agency RMBS. In addition, the company held \$145.4 million of U.S. Treasuries. As of June 30, 2010, fixed-rate securities comprised 48.9% of the company's RMBS portfolio and adjustable-rate securities comprised 51.1% of the company's RMBS portfolio.

Two Harbors was a party to interest rate swaps as of June 30, 2010 with an aggregate notional amount of \$400.0 million, of which \$250.0 million was utilized to economically hedge interest rate risk associated with the company's short-term LIBOR-based repurchase agreements. This notional position represents 34.6% of the company's \$722.0 million in outstanding borrowings collateralized by RMBS and Agency derivatives.

The following table summarizes the company's portfolio:

Two Harbors Portfolio

(dollars in thousands, except per share data)

| RMBS Portfolio Composition | As of June 30, 2010 | |
|----------------------------|---------------------|-------|
| Agency Bonds | | |
| Fixed Rate Bonds | \$ 339,595 | 40.8% |
| Hybrid ARMS | 298,178 | 35.8% |
| Total Agency | 637,773 | 76.6% |
| Non-Agency Bonds | | |
| Senior Bonds | 157,409 | 18.9% |
| Mezzanine Bonds | 37,265 | 4.5% |
| Total Non-Agency | 194,674 | 23.4% |
| Aggregate RMBS Portfolio | \$ 832,447 | |

| | |
|---|-------|
| Fixed-rate investment securities as a percentage of RMBS portfolio | 48.9% |
| Adjustable-rate investment securities as a percentage of RMBS portfolio | 51.1% |

| Portfolio Metrics | For the Quarter Ended | |
|--|-----------------------|------------|
| | June 30, 2010 | |
| Annualized yield on average RMBS available-for-sale securities during the quarter | | |
| Agency securities | | 3.5% |
| Non-Agency securities | | 11.3% |
| Aggregate Portfolio | | 5.4% |
| Annualized cost of funds on average repurchase balance during the quarter for RMBS | | 0.6% |
| Annualized interest rate spread for RMBS during the quarter | | 4.8% |
| Weighted average cost basis of principal and interest securities | | |
| Agency | \$ 105.7 | |
| Non-Agency | \$ 59.2 | |
| Weighted average three month CPR for our portfolio | | |
| Agency | | 12.5% |
| Non-Agency | | 12.9% |
| Debt-to-equity ratio at period-end ¹ | | 3.2 to 1.0 |

(1) Defined as total borrowings to fund RMBS and Agency derivatives to total equity.

Agency securities owned by Two Harbors at June 30, 2010 experienced a three-month average Constant Prepayment Rate (CPR) of 12.5% during the second quarter of 2010 as compared to 16.2% during the first quarter of 2010. The weighted average cost basis of the Agency portfolio was 105.7% of par as of June 30, 2010 and 105.0% of par as of March 31, 2010. The net premium amortization was \$2.8 million and \$2.5 million for the quarters ended June 30, 2010 and March 31, 2010, respectively.

Non-Agency securities owned by Two Harbors at June 30, 2010 experienced a three-month average CPR of 12.9% during the second quarter of 2010 as compared to 11.6% during the first quarter of 2010. The weighted average cost basis of the non-Agency portfolio was 59.2% of par as of June 30, 2010 and 56.8% of par as of March 31, 2010. The discount accretion was \$2.5 million and \$1.1 million for the quarters ended June 30, 2010 and March 31, 2010, respectively. The total net discount remaining was \$184.9 million and \$118.8 million as of June 30, 2010 and March 31, 2010, respectively.

Conference Call

Two Harbors Investment Corp. will host a conference call on August 5, 2010, at 9:00 a.m. EST to discuss second quarter 2010 financial results and related information. To participate in the teleconference, please call toll-free 877-868-1835 (or 914-495-8581 for international callers) approximately 10 minutes prior to the above start time. You may also listen to the teleconference live via the Internet at www.twoharborsinvestment.com under the Webcast link. For those unable to attend, a telephone playback will be available beginning at 12 p.m. EDT on August 5, 2010 through 9 p.m. EDT on August 12, 2010. The playback can be accessed by calling 800-642-1687 (or 706-645-9291 for international callers) and providing Confirmation Code 87733680. The call will also be archived on the company's website under the Webcast link.

About Two Harbors Investment Corp.

Two Harbors Investment Corp., a Maryland corporation, is a real estate investment trust that invest in residential mortgage-backed securities. Two Harbors is headquartered in Minnetonka, Minnesota, and is externally managed and advised by PRCM Advisers, LLC, a wholly-owned subsidiary of Pine River Capital Management L.P. Additional information is available at www.twoharborsinvestment.com.

Forward-Looking Statements

This press release includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking statements as predictions of future events. Words such as “expect,” “target,” “assume,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believe,” “predicts,” “potential,” “continue,” and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ include, but are not limited to, higher than expected operation costs, the rate at which we are able to deploy our available capital, changes in prepayment speeds of mortgages underlying our RMBS, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover certain losses that are expected to be temporary, changes in interest rates, the impact of new legislation or regulatory changes on our operations, and unanticipated changes in overall market and economic conditions.

Readers are cautioned not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Two Harbors does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based. Additional information concerning these and other risk factors is contained in Two Harbors’ most recent filings with the Securities and Exchange Commission (“SEC”). All subsequent written and oral forward looking statements concerning Two Harbors or matters attributable to Two Harbors or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.

Non-GAAP Financial Measures

In addition to disclosing financial results calculated in accordance with United States generally accepted accounting principles (GAAP), this press release and the accompanying investor presentation present non-GAAP financial measures that exclude certain items. Two Harbors’ management believes that these non-GAAP measures enable it to perform meaningful comparisons of past, present and future results of the company’s core business operations, and uses these measures to gain a comparative understanding of the company’s operating performance and business trends. The non-GAAP financial measures presented by the company represent supplemental information to assist investors in analyzing the results of Two Harbors’ operations; however, as these measures are not in accordance with GAAP, they should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated. See the GAAP to Non-GAAP reconciliation table on page 9 of this release.

Additional Information

Stockholders and warrant holders of Two Harbors, and other interested persons, may find additional information regarding the company at the SEC's Internet site at www.sec.gov or by directing requests to: Two Harbors Investment Corp., 601 Carlson Parkway, Suite 330, Minnetonka, MN 55305, telephone 612-238-3300.

Contact

Anh Huynh, Investor Relations, Two Harbors Investment Corp., 212-364-3221.

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TWO HARBORS INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(dollars in thousands, except per share data)

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|------------------------------------|-------------------|----------------------------------|-------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Interest income: | | | | |
| Available-for-sale securities | \$ 9,088 | \$ - | \$ 15,241 | \$ - |
| Cash and cash equivalents | 37 | 7 | 43 | 55 |
| Total interest income | 9,125 | 7 | 15,284 | 55 |
| Interest expense | 863 | - | 1,381 | - |
| Net interest income | 8,262 | 7 | 13,903 | 55 |
| Other income: | | | | |
| Gain on sale of investment securities, net | 834 | - | 2,031 | - |
| Loss on interest rate swap agreements | (4,054) | - | (5,601) | - |
| Gain on other derivative instruments | 152 | - | 1,098 | - |
| Total other income | (3,068) | - | (2,472) | - |
| Expenses: | | | | |
| Management fees | 748 | - | 1,205 | - |
| Operating expenses | 1,132 | 1,386 | 2,120 | 1,706 |
| Total expenses | 1,880 | 1,386 | 3,325 | 1,706 |
| Net income (loss) before income taxes | 3,314 | (1,379) | 8,106 | (1,651) |
| Benefit from income taxes | 774 | 155 | 1,309 | 247 |
| Net income (loss) | 4,088 | (1,224) | 9,415 | (1,404) |
| Accretion of Trust Account income relating to common stock subject to possible conversion | - | (37) | - | (68) |
| Net income (loss) attributable to common stockholders | \$ 4,088 | \$ (1,261) | \$ 9,415 | \$ (1,472) |
| Net income (loss) available per share to common stockholders, basic and diluted: | | | | |
| | <u>\$ 0.18</u> | <u>\$ (0.05)</u> | <u>\$ 0.52</u> | <u>\$ (0.06)</u> |
| Weighted average shares outstanding: | | | | |
| Basic | <u>22,438,121</u> | <u>24,936,558</u> | <u>17,933,689</u> | <u>24,936,558</u> |
| Diluted | <u>22,466,691</u> | <u>24,936,558</u> | <u>17,959,072</u> | <u>24,936,558</u> |
| Comprehensive income (loss): | | | | |
| Net income (loss) | \$ 4,088 | \$ (1,224) | \$ 9,415 | \$ (1,404) |
| Other comprehensive income | | | | |
| Net unrealized gain on available-for-sale securities, net of tax | (728) | - | 2,772 | - |
| Other comprehensive income | (728) | - | 2,772 | - |
| Comprehensive income (loss) | \$ 3,360 | \$ (1,224) | \$ 12,187 | \$ (1,404) |

TWO HARBORS INVESTMENT CORP.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

| ASSETS | June 30, 2010 (unaudited) | December 31, 2009 |
|--|---------------------------------|----------------------|
| Available-for-sale securities, at fair value | \$ 977,884 | \$ 494,465 |
| Cash and cash equivalents | 71,441 | 26,105 |
| Total earning assets | 1,049,325 | 520,570 |
| Restricted cash | 18,647 | 8,913 |
| Accrued interest receivable | 3,757 | 2,580 |
| Due from counterparties | 20,765 | 4,877 |
| Derivative assets, at fair value | 32,633 | 364 |
| Prepaid expenses | 118 | 572 |
| Deferred tax assets | 894 | - |
| Prepaid tax assets | 632 | 490 |
| Total Assets | \$ 1,126,771 | \$ 538,366 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Repurchase agreements | \$ 866,278 | \$ 411,893 |
| Derivative liabilities, at fair value | 21,636 | - |
| Accrued interest payable | 460 | 114 |
| Deferred tax liabilities | - | 124 |
| Accrued expenses and other liabilities | 2,422 | 1,030 |
| Dividends payable | 8,622 | 3,484 |
| Total liabilities | 899,418 | 416,645 |
| Stockholders' Equity | | |
| Preferred stock, par value \$0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock, par value \$0.01 per share; 450,000,000 shares authorized and 26,067,590 and 13,379,209 shares issued and outstanding, respectively | 261 | 134 |
| Additional paid-in capital | 238,521 | 131,756 |
| Accumulated other comprehensive income (loss) | 1,822 | (950) |
| Cumulative (losses) earnings | 3,680 | (5,735) |
| Cumulative distributions to stockholders | (16,931) | (3,484) |
| Total stockholders' equity | 227,353 | 121,721 |
| Total Liabilities and Stockholders' Equity | \$ 1,126,771 | \$ 538,366 |

TWO HARBORS INVESTMENT CORP.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION
(dollars in thousands, except per share data)

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|------------------------------------|-------------------|----------------------------------|-------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Reconciliation of net income (loss) attributable to common stockholders to Core Earnings: | | | | |
| Net income (loss) attributable to common stockholders | \$ 4,088 | \$ (1,261) | \$ 9,415 | \$ (1,472) |
| Adjustments for non-core earnings: | | | | |
| Gain on sales of securities, net of tax | (834) | - | (2,031) | - |
| Unrealized loss on interest rate swap agreements, net of tax | 2,689 | - | 3,433 | - |
| Gain on other derivative instruments, net of tax | (179) | - | (1,124) | - |
| Core Earnings | <u>\$ 5,764</u> | <u>\$ (1,261)</u> | <u>\$ 9,693</u> | <u>\$ (1,472)</u> |
| Weighted average shares outstanding - diluted | <u>22,466,691</u> | | <u>17,959,072</u> | |
| Core Earnings per weighted average share outstanding - diluted | <u>\$ 0.26</u> | NM | <u>\$ 0.54</u> | NM |
| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Reconciliation of net income (loss) attributable to common stockholders to Adjusted GAAP Earnings: | | | | |
| Net income (loss) attributable to common stockholders | \$ 4,088 | \$ (1,261) | \$ 9,415 | \$ (1,472) |
| Adjustments to GAAP Net Income: | | | | |
| Unrealized loss on interest rate swap agreements, net of tax | 2,689 | - | 3,433 | - |
| Adjusted GAAP Earnings | <u>\$ 6,777</u> | <u>\$ (1,261)</u> | <u>\$ 12,848</u> | <u>\$ (1,472)</u> |
| Weighted average shares outstanding - diluted | <u>22,466,691</u> | | <u>17,959,072</u> | |
| Adjusted GAAP Earnings per weighted average share outstanding - diluted | <u>\$ 0.30</u> | NM | <u>\$ 0.72</u> | NM |



Two Harbors
Investment Corp.

August 5, 2010

2010 Second Quarter
Earnings Call

Safe Harbor Statement

Forward-Looking Statements

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Readers are cautioned not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Two Harbors does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based. Additional information concerning these and other risk factors is contained in Two Harbors’ most recent filings with the Securities and Exchange Commission (“SEC”). All subsequent written and oral forward looking statements concerning Two Harbors or matters attributable to Two Harbors or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.



Second Quarter 2010 Highlights

- Declared quarterly dividend of \$0.33 per share in June 2010, representing 16% yield on an annualized basis⁽¹⁾.
- Delivered core earnings of \$0.26 per share and realized gains of \$0.05 per share for the quarter.
- Portfolio delivered weighted, annualized yield of 5.4%, an approximate 45 basis point increase over the prior quarter yield.
- Completed secondary offering raising net proceeds of \$107 million in April 2010.
- Reduced weighted operating expense ratio by approximately 100 basis points subsequent to the completion of the capital raise.



(1) Second quarter 2010 dividend may not be indicative of future dividend distributions. The Company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the Company's common stock calculated is based on the June 30, 2010 closing price of \$8.25.

Operating Performance

| Operating Performance (In millions, except for per share amounts) | Core Earnings | Realized Gains | Unrealized MTM | Q1-2010 Financials | Core Earnings | Realized Gains | Unrealized MTM | Q2-2010 Financials |
|--|------------------|-------------------|-------------------|-----------------------|------------------|-------------------|-------------------|-----------------------|
| Interest income | \$ 6.2 | \$ - | \$ - | \$ 6.2 | \$ 9.1 | \$ - | \$ - | \$ 9.1 |
| Interest expense | 0.6 | - | - | 0.6 | 0.8 | - | - | 0.8 |
| Net interest income | 5.6 | - | - | 5.6 | 8.3 | - | - | 8.3 |
| Gain on sale of investment securities, net | - | 1.2 | - | 1.2 | - | 0.8 | - | 0.8 |
| Loss on interest rate swap agreements ⁽¹⁾ | (0.4) | - | (1.1) | (1.5) | (0.8) | - | (3.3) | (4.1) |
| Gain on other derivative instruments | - | 0.3 | 0.6 | 0.9 | - | 0.4 | (0.2) | 0.2 |
| Total other income | (0.4) | 1.5 | (0.5) | 0.6 | (0.8) | 1.2 | (3.5) | (3.1) |
| Management fees | 0.4 | - | - | 0.4 | 0.8 | - | - | 0.8 |
| Operating expenses | 1.0 | - | - | 1.0 | 1.1 | - | - | 1.1 |
| Total expense | 1.4 | - | - | 1.4 | 1.9 | - | - | 1.9 |
| Net income (loss) before income taxes | 3.8 | 1.5 | (0.5) | 4.8 | 5.6 | 1.2 | (3.5) | 3.3 |
| Benefit from income taxes | 0.1 | - | 0.4 | 0.5 | 0.2 | (0.2) | 0.8 | 0.8 |
| Net income (loss) | \$ 3.9 | \$ 1.5 | \$ (0.1) | \$ 5.3 | \$ 5.8 | \$ 1.0 | \$ (2.7) | \$ 4.1 |
| Basic and diluted weighted average EPS | \$ 0.29 | \$ 0.11 | \$ (0.00) | \$ 0.40 | \$ 0.26 | \$ 0.05 | \$ (0.13) | \$ 0.18 |
| Supplemental data: | | | | | | | | |
| Unrealized gains/(losses) on interest rate swaps | | | | \$ (1.1) | | | | \$ (3.3) |
| Deferred tax benefit | | | | 0.4 | | | | 0.6 |
| Total | | | | \$ (0.7) | | | | \$ (2.7) |



(1) Second Quarter 2010 loss on interest rate swap agreements of \$0.8 million includes \$0.3 million in interest cost for swaps associated with U.S. Treasuries.

Operating Performance Metrics

| Earnings per Diluted Weighted Average Share Outstanding (in millions, except for per share amounts) | Q1-2010 Earnings | Q1-2010 EPS | Q2-2010 Earnings | Q2-2010 EPS | Q2 YTD Earnings | Q2 YTD EPS |
|--|---------------------|----------------|---------------------|----------------|--------------------|---------------|
| Core Earnings ¹ | \$ 3.9 | \$ 0.29 | \$ 5.8 | \$ 0.26 | \$ 9.7 | \$ 0.54 |
| GAAP Net Income | \$ 5.3 | \$ 0.40 | \$ 4.1 | \$ 0.18 | \$ 9.4 | \$ 0.52 |
| Adjusted GAAP Earnings ² | \$ 6.1 | \$ 0.45 | \$ 6.8 | \$ 0.30 | \$ 12.8 | \$ 0.72 |
| Comprehensive Income | \$ 8.8 | \$ 0.66 | \$ 3.4 | \$ 0.15 | \$ 12.2 | \$ 0.68 |

| Return on Average Equity (Percent) | Q1-2010 | Q2-2010 | Q2 YTD 2010 |
|--|---------|---------|----------------|
| Core Earnings return on average equity ¹ | 12.6% | 11.4% | 11.9% |
| GAAP return on average equity | 17.1% | 8.1% | 11.5% |
| Adjusted GAAP Earnings return on average equity ² | 19.5% | 13.4% | 15.7% |
| Comprehensive Income return on average equity | 28.3% | 6.7% | 14.9% |



- (1) Core Earnings is a non-GAAP measure that the Company defines as net income, excluding impairment losses, gains or losses on sales of securities, unrealized gains or losses on interest rate swaps, gains or losses on other derivative instruments and certain non-recurring expenses.
- (2) Adjusted GAAP Earnings is a non-GAAP measure that the Company defines as GAAP Net Income, excluding the unrealized fair value gains and losses associated with the Company's interest rate swaps.

Balance Sheet

| Balance Sheet (In millions, except for per share amounts) | March 31, 2010 | June 30, 2010 |
|---|-----------------|-------------------|
| Assets | | |
| Available-for-sale securities, at fair value | \$ 520.2 | \$ 977.9 |
| Cash and cash equivalents | 25.4 | 71.4 |
| Derivative assets, at fair value | 3.5 | 32.6 |
| Other assets | 49.9 | 44.9 |
| Total Assets | \$ 599.0 | \$ 1,126.8 |
| Liabilities and Stockholders' Equity | | |
| Repurchase agreements | \$ 450.0 | \$ 866.3 |
| Derivative liabilities, at fair value | 16.7 | 21.6 |
| Other liabilities | 6.5 | 11.5 |
| Total liabilities | 473.2 | 899.4 |
| Total stockholders' equity | 125.8 | 227.4 |
| Total Liabilities and Stockholders' Equity | \$ 599.0 | \$ 1,126.8 |
| Leverage on RMBS securities and Agency derivatives ⁽¹⁾ | 3.6x | 3.2x |



(1) Leverage is defined as total borrowings to fund RMBS securities and Agency derivatives divided by total equity. Total borrowings to fund RMBS securities and Agency derivatives was \$450 million at March 31, 2010, and \$722 million at June 30, 2010.

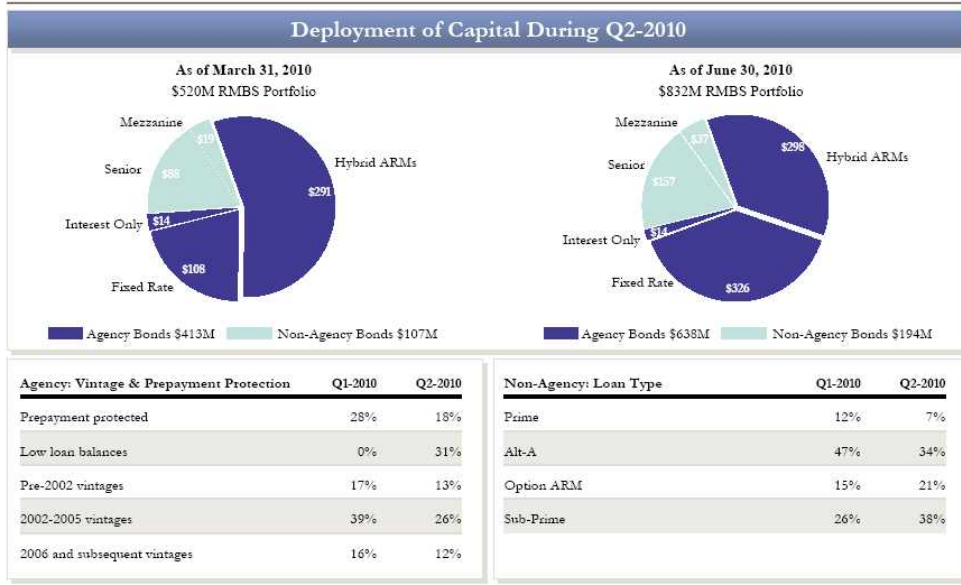
Change in Stockholders' Equity

| Change in Stockholders' Equity (In millions, except for per share amounts) | Q1-2010 Book Value | Q1-2010 Book Value per Share (diluted basis) ¹ | Q2-2010 Book Value | Q2-2010 Book Value per Share (diluted basis) ¹ |
|---|-----------------------|---|-----------------------|---|
| Beginning stockholders' equity | \$ 121.7 | \$ 9.08 | \$ 125.8 | \$ 9.38 |
| Net proceeds from common stock issuance | - | - | 106.8 | (0.46) |
| GAAP net income: | | | | |
| Core Earnings, net of tax | 3.9 | 0.29 | 5.8 | 0.22 |
| Realized gains and losses, net of tax | 1.5 | 0.11 | 1.0 | 0.04 |
| Unrealized mark-to-market gains and losses, net of tax | (0.1) | - | (2.7) | (0.10) |
| Other comprehensive income, net of tax | 3.5 | 0.26 | (0.7) | (0.03) |
| Dividend declaration | (4.8) | (0.36) | (8.6) | (0.33) |
| Other | 0.1 | - | - | (0.02) |
| Ending stockholders' equity | \$ 125.8 | \$ 9.38 | \$ 227.4 | \$ 8.70 |



(1) Diluted shares outstanding at end of period are used as the denominator in change in book value per share calculation.

RMBS Portfolio Composition



Portfolio Metrics and Financing

| Portfolio Yields and Metrics | | | | |
|----------------------------------|------------------|-------------------|------------------|------------------|
| Portfolio Yield | Realized Q1-2010 | At March 31, 2010 | Realized Q2-2010 | At June 30, 2010 |
| Annualized yield | 4.9% | 5.0% | 5.4% | 5.2% |
| Agency | 3.6% | - | 3.5% | - |
| Non-Agency | 10.6% | - | 11.3% | - |
| Cost of financing ⁽¹⁾ | 0.5% | 0.5% | 0.6% | 0.6% |
| Net interest spread | 4.4% | 4.5% | 4.8% | 4.6% |

| Portfolio Metrics | | Q1-2010 | Q2-2010 |
|---|------------------------------|---------|---------|
| Agency | Weighted average 3-month CPR | 16.2% | 12.5% |
| | Weighted average cost basis | \$105.0 | \$105.7 |
| Non-Agency | Weighted average 3-month CPR | 11.6% | 12.9% |
| | Weighted average cost basis | \$56.8 | \$59.2 |
| Change in equity value for +/- 100bps change in interest rates ⁽²⁾ | | 1.0% | 3.5% |
| Debt-to-Equity ⁽³⁾ | | 3.6x | 3.2x |

| Financing | |
|--|--------------|
| Repurchase Agreements: RMBS and Agency Derivatives | Amount (\$M) |
| Within 30 days | \$179 |
| 30 to 59 days | \$176 |
| 60 to 89 days | \$78 |
| 90 to 119 days | \$98 |
| Over 120 days | \$191 |
| Total | \$722 |

Financing Highlights:

- Laddered maturity schedule enhances liquidity profile
- Added three repo counterparties for a total of twelve relationships
- Maturities over 90 days represented 40% of total RMBS borrowings
- Interest rate swaps hedge 35% of RMBS borrowings



(1) Cost of financing excludes interest spread expense associated with the portfolio's interest rate swaps of \$0.4 million for the first quarter of 2010 and \$0.5 million for the second quarter of 2010. Including this interest spread expense would increase cost of financing by 0.4% for both the first and second quarter of 2010.
 (2) Represents range of the percentage change in equity value for +/- 100bps change in interest rates. Change in equity value is portfolio value change adjusted for leverage.
 (3) Debt-to-equity as defined as total borrowings to fund RMBS securities and Agency derivatives divided by total equity.