

Two Harbors Investment Corp.  
Form 424B5  
July 15, 2011  
Table of Contents

Filed Pursuant to Rule 424(b)(5)  
Registration No.: 333-175327

**PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JULY 13, 2011**

**42,000,000 Shares**

**Two Harbors Investment Corp.**

**Common Stock**

We are offering 42,000,000 shares of our common stock as described in this prospectus supplement and the accompanying prospectus.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol TWO. The closing price of our common stock on the NYSE on July 13, 2011 was \$10.66 per share.

The underwriters have an option to purchase a maximum of 6,300,000 additional shares to cover over-allotment of shares.

To assist us in maintaining our qualification as a real estate investment trust, or REIT, for federal income tax purposes, among other purposes, no person may own more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, unless our board of directors waives this limitation.

**Investing in our common stock involves a high degree of risk. See the risks set forth under the heading Risk Factors beginning on page S-4 of this prospectus supplement, and the risks set forth under the heading Item 1A. Risk Factors beginning on page 4 of our Annual Report on Form 10-K for the year ended December 31, 2010.**

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us
Per Share	\$ 10.15	\$ 0.13	\$ 10.02
Total	\$ 426,300,000	\$ 5,460,000	\$ 420,840,000

Delivery of the shares will be made on or about July 20, 2011.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse**

**Barclays Capital**

**J.P. Morgan**

**Wells Fargo Securities**

**JMP Securities**

The date of this prospectus supplement is July 15, 2011.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PROSPECTUS SUPPLEMENT</b>	
<u>ABOUT THIS PROSPECTUS SUPPLEMENT</u>	S-ii
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	S-iii
<u>PROSPECTUS SUPPLEMENT SUMMARY</u>	S-1
<u>THE OFFERING</u>	S-3
<u>RISK FACTORS</u>	S-4
<u>ADDITIONAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	S-8
<u>USE OF PROCEEDS</u>	S-9
<u>CAPITALIZATION</u>	S-10
<u>UNDERWRITING</u>	S-11
<u>LEGAL MATTERS</u>	S-14
<u>EXPERTS</u>	S-14
<u>CHANGE IN ACCOUNTANTS</u>	S-14
	<b>Page</b>
<b>PROSPECTUS</b>	
<u>ABOUT THIS PROSPECTUS</u>	1
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	1
<u>TWO HARBORS INVESTMENT CORP.</u>	3
<u>RISK FACTORS</u>	4
<u>USE OF PROCEEDS</u>	4
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	4
<u>DESCRIPTION OF CAPITAL STOCK</u>	5
<u>DESCRIPTION OF DEPOSITARY SHARES</u>	8
<u>DESCRIPTION OF DEBT SECURITIES</u>	11
<u>RESTRICTIONS ON OWNERSHIP AND TRANSFER</u>	21
<u>CERTAIN PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND TWO HARBORS - CHARTER AND BYLAWS</u>	24
<u>U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	29
<u>PLAN OF DISTRIBUTION</u>	49
<u>LEGAL MATTERS</u>	53
<u>EXPERTS</u>	53
<u>CHANGE IN ACCOUNTANTS</u>	53
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	54
<u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>	54

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.



**Table of Contents**

**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC or Commission, using a shelf registration process. This prospectus supplement contains specific information about us and the terms on which we are offering and selling shares of our common stock. To the extent that any statement made in this prospectus supplement is inconsistent with statements made in the prospectus, the statements made in the prospectus will be deemed modified or superseded by those made in this prospectus supplement. Before you purchase shares of our common stock, you should carefully read this prospectus supplement, the accompanying prospectus and the registration statement, together with the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

The terms Two Harbors, we, our, and us refer to Two Harbors Investment Corp., a Maryland corporation, together with its consolidated subsidiaries, unless otherwise specified.

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We believe that some of the information in this prospectus supplement constitutes forward-looking statements within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as may, expect, anticipate, contemplate, believe, estimate, intends, planned, goal, target, and continue or similar words. You should read statements that contain such words carefully because they:

discuss future expectations;

contain projections of future results of operations or financial condition; or

state other forward-looking information.

We believe it is important to communicate our expectations to our security holders. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language discussed in this prospectus supplement provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by us in such forward-looking statements, including among other things:

changes in interest rates and the market value of our target assets;

changes in prepayment rates of mortgages underlying our target assets;

the timing of credit losses within our portfolio;

our exposure to adjustable-rate and negative amortization mortgage loans underlying our target assets;

the state of the credit markets and other general economic conditions, particularly as they affect the price of earning assets and the credit status of borrowers;

the concentration of the credit risks we are exposed to;

legislative and regulatory actions affecting the mortgage and derivatives industries or our business;

the availability of target assets for purchase at attractive prices;

the availability of financing for our portfolio, including the availability of repurchase agreement financing;

declines in home prices;

## Edgar Filing: Two Harbors Investment Corp. - Form 424B5

increases in payment delinquencies and defaults on the mortgages underlying our non-Agency securities;

changes in liquidity in the market for real estate securities, the re-pricing of credit risk in the capital markets, inaccurate ratings of securities by rating agencies, rating agency downgrades of securities, and increases in the supply of real estate securities available-for-sale;

changes in the values of securities we own and the impact of adjustments reflecting those changes on our income statement and balance sheet, including our stockholders' equity;

our ability to generate the amount of cash flow we expect from our investment portfolio;

changes in our investment, financing, and hedging strategies and the new risks that those changes may expose us to;

changes in the competitive landscape within our industry, including changes that may affect our ability to retain or attract personnel;

our ability to build successful relationships with loan originators;

our ability to acquire mortgage loans in connection with our securitization plans;

S-iii

**Table of Contents**

our ability to securitize the mortgage loans that we may acquire;

our ability to manage various operational risks associated with our business;

our ability to maintain appropriate internal controls over financial reporting;

our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio;

our ability to maintain our REIT qualification for U.S. federal income tax purposes; and

limitations imposed on our business due to our REIT status and our status as exempt from registration under the 1940 Act. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this prospectus supplement. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described in this prospectus supplement under *Risk Factors*. Additional factors are described in our Annual Report on Form 10-K for the year ended December 31, 2010, which document is incorporated by reference in this prospectus supplement and the accompanying prospectus. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Before you make an investment decision, you should be aware that the occurrence of the events described in the *Risk Factors* section and elsewhere in this prospectus supplement, and incorporated herein by reference, may adversely affect us.

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights selected information about us. It may not contain all the information that may be important to you in deciding whether to invest in our common stock. You should read this entire prospectus supplement, including the Risk Factors, and the accompanying prospectus, together with the information incorporated by reference, including the risk factors, financial data and related notes, before making an investment decision.*

**Our Company**

Two Harbors Investment Corp. is a Maryland corporation focused on investing in, financing and managing residential mortgage-backed securities, or RMBS, and related investments, which we collectively refer to as our target assets. We operate as a real estate investment trust, or REIT, as defined under the Internal Revenue Code of 1986, as amended, or the Code.

We are externally managed and advised by PRCM Advisers LLC, a wholly-owned subsidiary of Pine River Capital Management L.P., or Pine River. Founded in 2002, with offices in New York, London, Hong Kong, San Francisco, Beijing and Minnetonka, Minnesota, Pine River is a global multi-strategy asset management firm providing comprehensive portfolio management, transparency and liquidity to institutional and high net worth investors.

Our objective is to provide attractive risk-adjusted returns to our stockholders over the long term, primarily through dividends and secondarily through capital appreciation. We selectively acquire and manage an investment portfolio of our target assets, which is constructed to generate attractive returns through market cycles. We focus on security selection and implement a relative value investment approach across various sectors within the residential mortgage market. Our target assets include the following:

Agency RMBS, meaning RMBS whose principal and interest payments are guaranteed by the Government National Mortgage Association (or Ginnie Mae), the Federal National Mortgage Association (or Fannie Mae), or the Federal Home Loan Mortgage Corporation (or Freddie Mac);

Non-Agency RMBS, meaning RMBS that are not issued or guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac;

Mortgage loans; and

Financial assets other than RMBS and mortgage loans, comprising approximately 5% to 10% of the portfolio.

We seek to deploy moderate leverage as part of our investment strategy. We generally finance our target assets through short-term borrowings structured as repurchase agreements.

We recognize that investing in our target assets is competitive and that we compete with other investment vehicles for attractive investment opportunities. We rely on our management team and Pine River, who have developed strong relationships with a diverse group of financial intermediaries. In addition, we have benefited and expect to continue to benefit from Pine River's analytical and portfolio management expertise and infrastructure. We believe that our significant focus on the RMBS area, the extensive RMBS expertise of our investment team, our strong analytics and our disciplined relative value investment approach give us a competitive advantage versus our peers.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. To qualify as a REIT we are required to meet certain investment and operating tests and annual distribution requirements. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of





## **Table of Contents**

our net taxable income to stockholders, do not participate in prohibited transactions and maintain our qualification as a REIT. However, certain activities that we may perform may cause us to earn income which will not be qualifying income for REIT purposes. We have designated our subsidiary, Capitol Acquisition Corp., or Capitol, and will designate another subsidiary, TH TRS Corp., or TH TRS, as a taxable REIT subsidiary, or TRS, as defined in the Code, to engage in such activities, and we may in the future form additional TRSs. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the 1940 Act.

Our headquarters are located at 601 Carlson Parkway, Suite 330, Minnetonka, Minnesota 55305 and our telephone number is (612) 238-3300. We maintain a website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com); however, the information found on this website is not a part of this prospectus supplement or the accompanying prospectus.

## **Recent Developments**

### ***Second Quarter Dividend***

On June 14, 2011, we declared a quarterly dividend of \$0.40 per share of common stock for the second quarter of 2011. This dividend is payable July 20, 2011 to common stockholders of record at the close of business on June 24, 2011. Investors in this offering are not entitled to receive this dividend.

### ***Public Offering***

On May 31, 2011, we completed a public offering in which we sold 23,000,000 shares of our common stock for net proceeds of \$235.2 million, after deducting underwriting discounts and estimated offering expenses.

### ***Securitization Program***

On May 18, 2011, we announced our intention to establish a securitization issuance program. As a first step in establishing this program, TH TRS, our indirect wholly-owned subsidiary, entered into a Master Repurchase Agreement dated May 17, 2011 (the *Repurchase Facility*) with Barclays Bank Plc, as purchaser and agent ( *Barclays* ). We intend to use the *Repurchase Facility* to aggregate and finance prime jumbo residential mortgage loans that we acquire from one or more select mortgage loan originators with whom we will build strategic relationships. Two Harbors will act as guarantor of all the obligations of TH TRS under the *Repurchase Agreement* and will be subject to certain financial covenants. Concurrently with the *Repurchase Facility*, TH TRS also entered into a *Forward AAA Securities Agreement* (the *Forward AAA Agreement*) with Barclays. Under the *Forward AAA Agreement*, we expect to securitize eligible mortgage loans that we acquire in connection with the *Repurchase Facility* in an ongoing securitization program that would issue one or more classes of senior securities and one or more classes of subordinate securities. Barclays will act as an underwriter or placement agent of the securitizations and TH TRS would act as the sponsor. Pursuant to the *Forward AAA Agreement*, Barclays would purchase the senior securities at a price and in accordance with the terms set forth in the *Forward AAA Agreement*. TH TRS, or an affiliate, would be expected to retain the subordinate securities. In the event that we are not able to securitize the eligible mortgage loans for one or more specified reasons, the *Forward AAA Agreement* provides that Barclays shall, at the election of TH TRS, purchase or place such eligible mortgage loans for the price or fee established in the *Forward AAA Agreement*. We are targeting completion of a \$250 million RMBS securitization in 2011 for our initial securitization. Copies of the *Repurchase Facility* and the *Forward AAA Agreement* were filed as exhibits 10.1 and 10.2 to our Current Report on Form 8-K filed with the SEC on May 18, 2011 and incorporated into this prospectus supplement.

**Table of Contents**

**THE OFFERING**

Common stock offered by us <sup>(1)</sup>	42,000,000 shares.
Common stock outstanding after this offering <sup>(1)</sup>	134,277,991 shares.
Use of proceeds	We expect to receive net proceeds from the sale of the common stock of approximately \$420,440,000, after deducting underwriting discounts and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, our net proceeds from the offering will be approximately \$483,566,000, after deducting underwriting discounts and estimated offering expenses. We plan to use the net proceeds from this offering to fund purchases of our target assets and for general corporate purposes, including to finance acquisitions of residential mortgage loans. Prior to the time we have fully used the net proceeds of this offering, we may fund our quarterly dividends out of such net proceeds. See <i>Use of Proceeds</i> .
Distribution policy	To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to continue to pay regular quarterly dividends of all or substantially all of our taxable income to holders of our common stock out of assets legally available therefor. U.S. federal income tax law requires that a REIT distribute with respect to each year at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. See <i>U.S. Federal Income Tax Considerations</i> in the accompanying prospectus.  The timing and amount of any dividends we pay to holders of our common stock will be at the discretion of our board of directors and will depend upon various factors, including our actual and projected results of operations, financial condition, liquidity and business, our debt and preferred stock covenants, maintenance of our REIT qualification, applicable provisions of the Maryland General Corporation Law, or MGCL, and such other factors as our board of directors deems relevant.
Listing	Our common stock is listed on the NYSE under the symbol TWO.
Risk Factors	Investing in our common stock involves a high degree of risk. See <i>Risk Factors</i> beginning on page S-4 of this prospectus supplement for a discussion of some of the risks relating to investment in our common stock. You should also carefully read and consider the information set forth under the headings Item 1A. Risk Factors beginning on page 11 of our Annual Report on Form 10-K for the year ended December 31, 2010 and all other information in this prospectus supplement and the accompanying prospectus before investing in our common stock.

(1) We have granted the underwriters a 30-day option to purchase up to 6,300,000 additional shares of our common stock. Unless otherwise indicated, all share amounts in this prospectus supplement assume no exercise of the underwriters' option or exercise of any outstanding warrants to purchase our common stock.



**Table of Contents**

**RISK FACTORS**

An investment in Two Harbors involves a number of risks. Before making an investment decision, you should carefully read and consider the information set forth under the headings Item 1A. Risk Factors beginning on page 11 of our Annual Report on Form 10-K for the year ended December 31, 2010 (which descriptions are incorporated herein by reference) and the following summary of risk factors, together with all other information in this prospectus supplement and the accompanying prospectus. We believe such risk factors, individually or in the aggregate, could cause our actual results to differ significantly from anticipated or historical results. In addition to understanding the key risks described below and incorporated herein by reference, investors should understand that it is not possible to predict or identify all risk factors, and consequently, such risk factors are not a complete discussion of all potential risks or uncertainties.

**Risks Related to the Securities of Two Harbors**

*Future issuances and sales of shares of our common stock may depress the market price of our common stock or have adverse consequences for our stockholders.*

Our charter provides that we may issue up to 450,000,000 shares of common stock. As of July 12, 2011, 92,277,991 shares of common stock were issued and outstanding and 33,249,000 warrants to purchase up to 33,249,000 shares of common stock were issued and outstanding. Our 2009 equity incentive plan provides for grants of restricted common stock and other equity-based awards, subject to a ceiling of 200,000 shares available for issuance under the plan. As of July 12, 2011, we have granted an aggregate of 78,372 shares of restricted common stock to our independent directors under our 2009 equity incentive plan, of which 19,538 shares have vested and 58,834 shares remain subject to vesting restrictions.

We cannot predict the effect, if any, of future issuances, sales, or exchanges of our common stock on the market price of our common stock. Sales or exchanges of substantial amounts of common stock or the perception that such sales or exchanges could occur may adversely affect the prevailing market price for our common stock.

Also, we may issue additional shares in subsequent public offerings or private placements to acquire new assets or for other purposes. We are not required to offer any such shares to existing stockholders on a preemptive basis. Therefore, it may not be possible for existing stockholders to participate in such future share issuances, which may dilute the existing stockholders' interests.

*We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.*

We intend to continue to pay quarterly distributions and to make distributions to our stockholders in an amount such that we distribute all or substantially all of our REIT taxable income in each year, subject to certain adjustments. We have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described herein. All distributions will be made, subject to Maryland law, at the discretion of our board of directors and will depend on our earnings, our financial condition, any debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions.

*Our warrants may be exercised in the future, which would increase the number of shares of our common stock eligible for future resale in the public market.*

Outstanding redeemable warrants to purchase an aggregate of 33,249,000 shares of our common stock are currently exercisable at an exercise price of \$11.00 per share. Of these warrants, an aggregate of 7,000,000 warrants issued to sponsors of Capitol are exercisable on a pro rata cashless basis based on the formula set forth in the Warrant Agreement. The warrant exercise price may be lowered under certain circumstances, including,

## **Table of Contents**

among others, in our sole discretion at any time prior to the expiration date of the warrants for a period of not less than ten business days; provided, however, that any such reduction shall be identical in percentage terms among all of the warrants. These warrants likely will be exercised if the market price of the shares of our common stock equals or exceeds the warrant exercise price. Therefore, as long as warrants remain outstanding, there will be a drag on any increase in the price of our common stock in excess of the warrant exercise price. To the extent such warrants are exercised, additional shares of our common stock will be issued, which would dilute the ownership of existing stockholders. Further, if these warrants are exercised at any time in the future at a price lower than the book value per share of our common stock, existing stockholders could suffer substantial dilution of their investment, which dilution could increase in the event the warrant exercise price is lowered. Additionally, if we were to lower the exercise price in the near future, the likelihood of this dilution could be accelerated.

### ***The market price of our common stock could fluctuate and could cause you to lose a significant part of your investment.***

The market price of our common stock may be influenced by many factors, some of which are beyond our control, including those described above and the following:

changes in financial estimates by analysts;

fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

general economic conditions;

changes in market valuations of similar companies;

exercise of the warrants;

regulatory developments in the United States; and

additions or departures of key personnel at Pine River.

Resulting fluctuations in the market price of our common stock could cause you to lose a significant part of your investment.

### ***The allocation of the net proceeds of our equity offerings among our target assets, and the timing of the deployment of these proceeds is subject to, among other things, then prevailing market conditions and the availability of target assets.***

Our allocation of the net proceeds of this and our other equity offerings among our target assets is subject to our investment guidelines and our REIT qualification. PRCM Advisers LLC will make determinations as to the percentage of our equity that will be invested in each of our target assets and the timing of the deployment of the net proceeds of our equity offerings. These determinations will depend on then prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. Until appropriate assets can be identified, PRCM Advisers LLC may decide to use the net proceeds of our offerings to pay down our short-term debt or to invest the net proceeds in interest-bearing short-term investments, including funds which are consistent with our REIT election. These investments are expected to provide a lower net return than we seek to achieve from our target assets. Prior to the time we have fully used the net proceeds of our offerings to acquire our target assets, we may fund our quarterly dividends out of such net proceeds.

### **Risks Related to the Business of Two Harbors**

We face certain additional risks to our business as a result of our new securitization program.



## **Table of Contents**

*There are risks related to our plan to securitize prime jumbo residential mortgage loans.*

Our plan to have our indirect wholly-owned subsidiary, TH TRS, securitize prime jumbo residential mortgage loans is subject to many of the same risks as those related to our other target assets, including risks related to changes in interest rates, economic factors in general, pre-payment speeds, default risks and risks related to hedging strategies. However, our plan to purchase and securitize these loans subjects us to additional risks as well.

*Mortgage loans we intend to securitize will be subject to additional risks under repurchase agreements.*

We intend to finance the prime jumbo residential mortgage loans that we acquire with repurchase agreements, including the Repurchase Facility with Barclays, prior to the planned securitization. Repurchase agreements for newly originated mortgage loans specify in detail the characteristics of eligible mortgages which may be financed under the repurchase agreements, and those specified characteristics are different than those contained in the repurchase facilities we use to finance our other target assets. Many of the events which could cause the mortgage loans to become ineligible are not within our sole control. If the mortgage loans we acquire become ineligible to be financed under these facilities, we may be subject to less favorable advance rates, or haircuts, under the repurchase facilities, or we may be required to repurchase the ineligible mortgages on short notice. If that occurs, we will have to use additional capital to hold these mortgage loans, which will reduce the capital available to invest in our other target assets such as Agency RMBS and Non-Agency RMBS.

*We may not be able to acquire targeted prime jumbo residential mortgage loans.*

The success of our securitization program will depend upon sourcing a large volume of desirable prime jumbo residential loans. We may be unable to do so for many reasons. We may be unable to locate originators that are able to originate mortgage loans that meet our standards, and those originators may decline to sell us those mortgage loans. Competition for the loans may drive down supply or drive up prices, making it uneconomical to purchase the loans. General economic factors, such as recession, declining home values, unemployment and high interest rates, may limit the supply of available loans. As a result, we may incur additional costs to acquire a sufficient volume of mortgage loans or be unable to acquire mortgage loans at a reasonable price. If we cannot source an adequate volume of desirable loans, our securitization program may be unprofitable, and we may hold individual loans for long periods, increasing our exposure to the credit of the borrowers and requiring capital that might be better used elsewhere in our business.

*Our Manager has not previously completed a securitization or acquired newly originated mortgage loans.*

Our Manager, PRCM Advisers, has not previously completed a securitization or acquired newly originated mortgage loans. Through the use of existing resources within Pine River, the addition of new staff and the use of outside advisers, we believe that PRCM Advisers has sufficient experience to conduct our securitization program. Nonetheless, this is a new business for Two Harbors, and there can be no assurance that we will be able to implement our securitization program successfully, or at all.

*Market conditions and other factors may affect our ability to securitize prime jumbo mortgage loans.*

Our ability to complete a securitization of prime jumbo mortgage loans will be affected by a number of factors, including:

conditions in the securities markets, generally;

conditions in the asset-backed securities market, specifically;

yields of our portfolio of prime jumbo mortgage loans;

the credit quality of our portfolio of prime jumbo mortgage loans; and



our ability to obtain any necessary credit enhancement.

S-6

## Table of Contents

In recent years, the asset-backed securitization markets have experienced unprecedented disruptions, and securitization volumes have decreased sharply. Recent conditions in the securitization markets include reduced liquidity, increased risk premiums for issuers, reduced investor demand, financial distress among financial guaranty insurance providers, and a general tightening of credit. These conditions, which may increase our cost of funding, and may reduce or even eliminate our access to the securitization market, may continue or worsen in the future. As a result, these conditions may lead us to be unable to sell securities in the asset-backed securities market. Further, our repurchase facilities may not be adequate to fund our mortgage purchasing activities until such disruptions in the securitization markets subside. Further or continued disruptions in this market or any adverse change or delay in our ability to access the market could have a material adverse effect on our financial position, liquidity and results of operations. Low investor demand for asset-backed securities could force us to hold prime jumbo mortgage loans until investor demand improves, but our capacity to hold such mortgage loans is not unlimited. Continuing adverse market conditions could also result in increased costs and reduced margins earned in connection with our planned securitization transactions.

***Our ability to execute securitizations of prime jumbo mortgage loans could be delayed, limited, or precluded by legislative and regulatory reforms applicable to asset-backed securities and the institutions that sponsor, service, rate, or otherwise participate in, or contribute to, the successful execution of a securitization transaction. Other factors could also limit, delay, or preclude our ability to execute securitization transactions. These legislative, regulatory, and other factors could also reduce the returns we would otherwise expect to earn in connection with securitization transactions.***

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. Provisions of the Dodd-Frank Act require significant revisions to the legal and regulatory framework which apply to the asset-backed securities markets and securitizations. Some of the provisions of the Dodd-Frank Act have become effective or been implemented, while others are in the process of being implemented or will become effective in the future.

We cannot predict how the Dodd-Frank Act and the other regulations that have been proposed will affect our ability to execute securitizations of residential mortgage loans. For example, Section 15G of the Securities Exchange Act, as modified by the Dodd-Frank Act, generally requires the issuer of asset-backed securities to retain not less than five percent of the credit risk of the assets collateralizing the asset-backed securities. Section 15G includes an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as qualified residential mortgages. The Dodd-Frank Act, however, left the definition of qualified residential mortgage to be determined by a federal rule-making process. In March 2011, federal regulators proposed a definition for the terms, as well as other rules related to the risk retention requirements of Section 15G, but those regulations have not been finalized.

In addition to the Dodd-Frank Act and its related rules, other federal or state laws and regulations that could affect our ability to execute securitization transactions may be proposed, enacted, or implemented. These laws and regulations could effectively preclude us from executing securitization transactions, could delay our execution of these types of transactions, or could reduce the returns we would otherwise expect to earn from executing securitization transactions.

Other matters, such as (i) accounting standards applicable to securitization transactions and (ii) capital and leverage requirements applicable to banks and other regulated financial institutions that traditionally purchase and hold asset-backed securities, could result in less investor demand for securities issued through securitization transactions we plan to execute or increased competition from other institutions that execute securitization transactions.

## **Table of Contents**

*Rating agencies may affect our ability to execute securitization transactions, or may reduce the returns we would otherwise expect to earn from securitization transactions.*

In the past, the rating agencies have played a central role in the securitization markets. Many purchasers of asset-backed securities require that a security be rated by the agencies at or above a specific grade before they will consider purchasing it. The rating agencies could adversely affect our ability to execute securitization transactions by deciding not to publish ratings for our securitization transaction (or deciding not to consent to the inclusion of those ratings in the prospectuses we may file with the SEC relating to securitization transactions), or by assigning ratings that are below the thresholds investors require. Further, rating agencies could alter their ratings processes or criteria after we have accumulated loans for securitization in a manner that reduces the value of previously acquired loans or that requires us to incur additional costs to comply with those processes and criteria. Moreover, the ratings agencies have come under heavy criticism for their perceived role in the financial crisis that started in 2008, and as a result their role and business model may change in ways that adversely affect our ability to execute securitization transactions.

*We may be subject to fines or other penalties based upon the conduct of independent mortgage brokers through which we originate mortgage loans and lenders from which we acquire mortgage loans.*

The independent third party mortgage brokers and lenders through which we plan to obtain prime jumbo mortgage loans are subject to strict and evolving consumer protection laws and other legal obligations. While these laws may not explicitly hold us responsible for the legal violations of these third parties, federal and state agencies and private litigants have increasingly sought to impose such liability. In addition, various regulators and plaintiffs lawyers have sought to hold assignees of mortgage loans liable for the alleged violations of the originating lender under theories of express or implied assignee liability. Accordingly, we may be subject to fines, penalties or civil liability based upon the conduct of independent mortgage brokers or originating lenders from whom we acquire mortgage loans.

*The purchase of residential mortgage loans in the secondary market may, in some circumstances, require us to maintain various state licenses and failure to obtain those licenses may adversely affect our securitization program.*

The purchase of residential mortgage loans in the secondary market may, in some circumstances, require us to maintain various state licenses. We have recently begun the process of applying for the necessary licenses, but in some cases it may take months to acquire them. As a result, we could be delayed in conducting our planned business. There is no assurance that we will be able to obtain all of the licenses we need or that we will not experience significant delays in obtaining these licenses. Once licenses are issued we will be required to comply with various information reporting and other regulatory requirements to maintain those licenses, and there is no assurance that we will be able to satisfy those requirements on an ongoing basis. Our failure to obtain or maintain required licenses may restrict our planned securitization and could harm our business and expose us to penalties or other claims.

## **ADDITIONAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The rules dealing with Federal income taxation are constantly under review by persons involved in the legislative process, and by the Internal Revenue Service and the U.S. Treasury Department. The recently enacted Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 extends the 2001 and 2003 tax rates for taxpayers that are taxable as individuals, trusts and estates through 2012, including the maximum 35% tax rate on ordinary income and the maximum 15% tax rate for long-term capital gains and qualified dividend income. As noted in the prospectus, dividends paid by REITs will generally not constitute qualified dividend income eligible for the 15% tax rate for stockholders that are taxable as individuals, trusts and estates and will generally be taxable at the higher ordinary income tax rates.

**Table of Contents**

**USE OF PROCEEDS**

We expect to receive net proceeds from the sale of common stock totaling approximately \$420,440,000, after deducting underwriting discounts and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, our net proceeds from the offering will be approximately \$483,566,000, after deducting underwriting discounts and estimated offering expenses.

We plan to use the net proceeds from this offering to purchase Agency RMBS, non-Agency RMBS, and financial assets other than RMBS, in each case subject to our investment guidelines and to the extent consistent with maintaining our REIT qualification, and for general corporate purposes, including to finance acquisitions of residential mortgage loans. PRCM Advisers LLC will make determinations as to the percentage of our equity that will be invested in each of our target assets and the timing of deployment of the net proceeds of this offering. These determinations will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. Until appropriate assets can be identified, PRCM Advisers LLC may decide to use the net proceeds to pay off our short-term debt or invest the net proceeds in interest-bearing short-term investments, including funds which are consistent with our REIT election. These investments are expected to provide a lower net return than we seek to achieve from our target assets. Prior to the time we have fully used the net proceeds of this offering to acquire our target assets, we may fund our quarterly dividends out of such net proceeds.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization at March 31, 2011 (1) on an actual basis, (2) as adjusted to reflect our sale of 23,000,000 shares of common stock in the May 2011 offering and (3) as further adjusted to reflect the effect of the sale of our common stock in this offering, after deducting the underwriting discount and estimated offering expenses. You should read this table together with our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Actual	As of March 31, 2011 As Adjusted for the May 2011 Offering (Dollars in thousands)	As Further Adjusted for This Offering <sup>(1)(2)</sup>
<b>Stockholders equity:</b>			
Common Stock, par value \$0.01 per share; 450,000,000 shares authorized, and 69,251,757 shares issued and outstanding, actual, and 92,251,757 shares outstanding, as adjusted, and 134,251,757 shares outstanding, as further adjusted	\$ 693	\$ 923	\$ 1,343
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized, and no shares issued and outstanding, actual, and no shares outstanding, as adjusted, and no shares outstanding, as further adjusted	\$	\$	\$
Additional paid in capital	\$ 654,514	\$ 889,524	\$ 1,309,544
Accumulated other comprehensive income	\$ 31,734	\$ 31,734	\$ 31,734
Cumulative earnings	\$ 52,397	\$ 52,397	\$ 52,397
Cumulative distributions to stockholders	\$ (53,770)	\$ (53,770)	\$ (53,770)
Total stockholders equity	\$ 685,568	\$ 920,808	\$ 1,341,248

(1) Does not include the underwriters' over-allotment option to purchase up to 6,300,000 additional shares or 26,234 shares issued between April 1, 2011 and July 12, 2011. Outstanding share amounts assume no exercise of our warrants.

(2) Does not include dividend declared on June 14, 2011 of \$0.40 per share of common stock for the second quarter of 2011, which is payable July 20, 2011 to stockholders of record at the close of business on June 24, 2011.

**Table of Contents**

**UNDERWRITING**

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through Credit Suisse Securities (USA) LLC, Barclays Capital Inc., J.P. Morgan Securities LLC and Wells Fargo Securities, LLC, have severally agreed to purchase from us the following respective number of shares of common stock at a public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement:

Underwriter	Number of Shares
Credit Suisse Securities (USA) LLC	15,120,000
Barclays Capital Inc.	8,820,000
J.P. Morgan Securities LLC	6,300,000
Wells Fargo Securities, LLC	5,880,000
JMP Securities LLC	5,880,000
<b>Total</b>	<b>42,000,000</b>

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that, if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 6,300,000 additional shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus supplement and to selling group members at that price less a selling concession of \$0.07 per share. After the initial public offering, the underwriters may change the public offering price and concession.

The following table summarizes the compensation we will pay:

	Per Share		Total	
	Without Over-Allotment	With Over-Allotment	Without Over-Allotment	With Over-Allotment
Underwriting Discounts and Commissions paid by us	\$ 0.13	\$ 0.13	\$ 5,460,000	\$ 6,279,000

The expenses of the offering, payable by us, excluding the underwriter discounts and commissions, are estimated to be approximately \$400,000.

We have agreed that we will not (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or the Lock-Up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Lock-Up Securities, (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-Up Securities within the meaning of Section 16 of the Exchange Act or (v) file with the SEC a registration statement under the Securities Act relating to Lock-Up Securities, or publicly disclose the intention to take any such action, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC, Barclays Capital Inc., J.P. Morgan Securities LLC and Wells Fargo Securities, LLC for a period of 60 days after the date of this prospectus supplement. However, we may, during this 60-day lock-up period, (a) grant common stock-based awards to our directors under our 2009 equity incentive plan, (b) register with the SEC the shares of common stock authorized for

## Table of Contents

issuance under our 2009 equity incentive plan, (c) issue shares of our common stock upon the exercise of currently outstanding redeemable warrants to purchase an aggregate of 33,249,000 shares of our common stock, and (d) issue and sell shares pursuant to our dividend reinvestment and direct share purchase plan.

Each of our directors and executive officers and PRCM Advisers LLC have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC, Barclays Capital Inc., J.P. Morgan Securities LLC and Wells Fargo Securities, LLC for a period of 60 days after the date of this prospectus supplement. However, each of our directors and executive officers may transfer or dispose of our shares during this 60-day lock-up period, provided, that (i) such transfer shall not involve a disposition for value, (ii) the transferee agrees to be bound in writing by the restrictions set forth in this paragraph for the remainder of the 60-day lock-up period prior to such transfer, and (iii) no filing by the transferor or transferee under the Exchange Act is required or voluntarily made in connection with such transfer (other than a filing on a Form 5 made after the expiration of the 60-day lock-up period). The foregoing lock-up agreements do not include any of the warrants or shares acquired upon conversion of such warrants that are covered by our registration statement on Form S-3 (Registration Statement No. 333-163034), initially filed on November 10, 2009, including those held by Nisswa Acquisition Master Fund Ltd. and Pine River Master Fund Ltd., other than those held by our director, Mark D. Ein.

In the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse Securities (USA) LLC, Barclays Capital Inc., J.P. Morgan Securities LLC and Wells Fargo Securities, LLC waives, in writing, such an extension.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

The shares of common stock are listed on the NYSE under the symbol TWO.

In the ordinary course of their businesses, the underwriters and/or their affiliates may have engaged in financial transactions with, and may have performed investment banking, lending, asset management and/or financial advisory services for us and/or our affiliates and may do so for us and/or our affiliates in the future. They have received or will receive customary fees and reimbursements of expenses for these transactions and services.

We have entered into master repurchase agreements with affiliates of Credit Suisse Securities (USA) LLC, Barclays Capital Inc., J.P. Morgan Securities LLC and Wells Fargo Securities, LLC for the financing of our target assets. We have also entered into the Repurchase Facility and Forward AAA Securities Agreement with Barclays with respect to the financing of the residential mortgage loans that we intend to acquire in connection with our planned securitization program. We have also entered into master securities forward transaction agreements, international swaps and derivatives agreements and other similar agreements with certain affiliates of J.P. Morgan Securities LLC, which affiliates provide prime brokerage services to us.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

**Table of Contents**

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NYSE or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.



**Table of Contents**

**LEGAL MATTERS**

Certain legal matters relating to this offering will be passed upon for us by Leonard, Street and Deinard Professional Association, Minneapolis, Minnesota. Certain legal matters in connection with this offering, including the validity of the offered securities, will be passed upon for us by Venable LLP, Baltimore, Maryland. In addition, the description of U.S. federal income tax consequences contained in the section of the accompanying prospectus entitled "U.S. Federal Income Tax Considerations" will be reviewed by, and the qualification of our company as a REIT for U.S. federal income tax purposes will be passed upon by, Venable LLP, Baltimore, Maryland. Certain legal matters relating to this offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York.

**EXPERTS**

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements as of December 31, 2010 and 2009 and the years then ended included in our Annual Report on Form 10-K for the year ended December 31, 2010, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

The audited financial statements of Capitol Acquisition Corp. (a development stage company) for the year ended December 31, 2008, as included in the Annual Report on Form 10-K for the year ended December 31, 2010 of Two Harbors Investment Corp., which is incorporated by reference in this prospectus, have been so included in reliance upon the report (which includes an explanatory paragraph relating to substantial doubt about the ability of Capitol Acquisition Corp. to continue as a going concern) of Marcum LLP, formerly Marcum & Kliegman LLP, or Marcum, independent registered public accountants, given on the authority of said firm as experts in accounting and auditing.

**CHANGE IN ACCOUNTANTS**

On October 30, 2009, our audit committee engaged Ernst & Young LLP as the principal accountant for Capitol. As a result of the merger, Capitol became our wholly-owned subsidiary, for which Ernst & Young LLP serves as the principal accountant, and consequently Marcum was effectively dismissed. Neither our nor Capitol's boards of directors recommended or approved such decision by the audit committee; however, our board of directors has delegated to the audit committee, which is comprised of all of our independent directors, the authority to engage independent certified public accountants. Marcum's report in respect of the audited financial statements of Capitol for the year ended December 31, 2008 included an explanatory paragraph relating to substantial doubt about the ability of Capitol to continue as a going concern. During Capitol's two most recent fiscal years and the subsequent interim periods prior to October 30, 2009, neither we nor Capitol had any disagreements with Marcum on any matter of accounting principle or practice, financial statement disclosure or auditing scope or procedure.

**Table of Contents**

**PROSPECTUS**

**Two Harbors Investment Corp.**

**\$1,500,000,000**

**Common Stock**

**Preferred Stock**

**Depositary Shares**

**Debt Securities**

We may offer, issue and sell, from time to time, up to an aggregate of \$1,500,000,000 of shares of our common stock, preferred stock, depositary shares and debt securities, which may consist of debentures, notes, or other types of debt, in one or more offerings. We will provide specific terms of each issuance of these securities in supplements to this prospectus. We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis. You should read this prospectus and any supplement carefully before you decide to invest. This prospectus may not be used to consummate sales of these securities unless it is accompanied by a prospectus supplement.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol TWO.

We have elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. As long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax to the extent we distribute our taxable income to our stockholders on an annual basis. To assist us in qualifying as a REIT, among other purposes, ownership of shares of our common stock by any person is limited, with certain exceptions, to 9.8% by value or by number of shares, whichever is more restrictive, of the outstanding shares of our common stock and 9.8% by value or by number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our capital stock. In addition, our charter contains various other restrictions on the ownership and transfer of our stock.

Our principal office is located at 601 Carlson Parkway, Suite 330, Minnetonka, Minnesota 55331. Our telephone number is (612) 238-3300.

**Investing in our securities involves a high degree of risk. You should carefully consider the information referred to under the heading Risk Factors beginning on page 4 of this prospectus before you invest.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is July 13, 2011**

**Table of Contents**

**Two Harbors Investment Corp.**

**TABLE OF CONTENTS**

<u>ABOUT THIS PROSPECTUS</u>	1
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	1
<u>TWO HARBORS INVESTMENT CORP.</u>	3
<u>RISK FACTORS</u>	4
<u>USE OF PROCEEDS</u>	4
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	4
<u>DESCRIPTION OF CAPITAL STOCK</u>	5
<u>DESCRIPTION OF DEPOSITARY SHARES</u>	8
<u>DESCRIPTION OF DEBT SECURITIES</u>	11
<u>RESTRICTIONS ON OWNERSHIP AND TRANSFER</u>	21
<u>CERTAIN PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND TWO HARBORS CHARTER AND BYLAWS</u>	24
<u>U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	29
<u>PLAN OF DISTRIBUTION</u>	49
<u>LEGAL MATTERS</u>	53
<u>EXPERTS</u>	53
<u>CHANGE IN ACCOUNTANTS</u>	53
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	54
<u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>	54

**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC or Commission, using a shelf registration process. Under this shelf registration process, we may sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities, we will provide a supplement to this prospectus that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. It is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the heading *Where You Can Find More Information*.

You should rely only on the information incorporated by reference or set forth in this prospectus or the applicable prospectus supplement. We have not authorized anyone else to provide you with additional or different information. You should not assume that the information in this prospectus, the applicable prospectus supplement or any other offering material is accurate as of any date other than the dates on the front of those documents.

When used in this prospectus, the terms Two Harbors, company, issuer, registrant, we, our, and us refer to Two Harbors Investment Corp. and its consolidated subsidiaries, unless otherwise specified.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We believe that some of the information in this prospectus constitutes forward-looking statements within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as may, expect, anticipate, contemplate, believe, estimate, intend, and continue or similar words. You should read statements that contain these words carefully because they:

discuss future expectations;

contain projections of future results of operations or financial condition; or

state other forward-looking information.

We believe it is important to communicate our expectations to our securityholders. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language discussed in this prospectus provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by us in such forward-looking statements, including among other things:

changes in interest rates and the market value of our target assets;

changes in prepayment rates of mortgages underlying our target assets;

the timing of credit losses within our portfolio;

our exposure to adjustable-rate and negative amortization mortgage loans in our target assets;

the state of the credit markets and other general economic conditions, particularly as they affect the price of earning assets and the credit status of borrowers;

the concentration of the credit risks we are exposed to;

legislative and regulatory actions affecting the mortgage and derivatives industries or our business;

the availability of target assets for purchase at attractive prices;

**Table of Contents**

the availability of financing for our portfolio, including the availability of repurchase agreement financing;

declines in home prices;

increases in payment delinquencies and defaults on the mortgages underlying our non-Agency residential mortgage-backed securities, or RMBS;

changes in liquidity in the market for real estate securities, the re-pricing of credit risk in the capital markets, inaccurate ratings of securities by rating agencies, rating agency downgrades of securities, and increases in the supply of real estate securities available for sale;

changes in the values of securities we own and the impact of adjustments reflecting those changes on our income statement and balance sheet, including our stockholders' equity;

our ability to generate the amount of cash flow we expect from our investment portfolio;

changes in our investment, financing, and hedging strategies and the new risks that those changes may expose us to;

changes in the competitive landscape within our industry, including changes that may affect our ability to retain or attract personnel;

our ability to manage various operational risks associated with our business;

our ability to build successful relationships with loan originators;

our ability to acquire mortgage loans in connection with our securitization plans;

our ability to securitize the mortgage loans that we may acquire;

our ability to manage various operational risks associated with our business;

our ability to maintain appropriate internal controls over financial reporting;

our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio;

our ability to maintain our qualification as a real estate investment trust, or REIT, for U.S. federal income tax purposes; and

## Edgar Filing: Two Harbors Investment Corp. - Form 424B5

limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940, or 1940 Act.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or to know how they may affect us.

All forward-looking statements included herein attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligations to update these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

Before you make an investment decision, you should be aware that the occurrence of the events described in the *Risk Factors* section and elsewhere in this prospectus may adversely affect us.

---

**Table of Contents**

**TWO HARBORS INVESTMENT CORP.**

Two Harbors Investment Corp. is a Maryland corporation focused on investing in, financing and managing RMBS, residential mortgage loans and related investments, which we collectively refer to as our target assets. We operate as a real estate investment trust, or REIT, as defined under the Internal Revenue Code of 1986, as amended, or the Code.

We are externally managed and advised by PRCM Advisers LLC, a wholly-owned subsidiary of Pine River Capital Management L.P., or Pine River. Founded in 2002, with offices in New York, London, Hong Kong, San Francisco, Beijing and Minnetonka, Minnesota, Pine River is a global multi-strategy asset management firm providing comprehensive portfolio management, transparency and liquidity to institutional and high net worth investors.

Our objective is to provide attractive risk-adjusted returns to our stockholders over the long term, primarily through dividends and secondarily through capital appreciation. We selectively acquire and manage an investment portfolio of our target assets, which is constructed to generate attractive returns through market cycles. We focus on security selection and implement a relative value investment approach across various sectors within the residential mortgage market. Our target assets include the following:

Agency RMBS, meaning RMBS whose principal and interest payments are guaranteed by the Government National Mortgage Association (or Ginnie Mae), the Federal National Mortgage Association (or Fannie Mae), or the Federal Home Loan Mortgage Corporation (or Freddie Mac);

Non-Agency RMBS, meaning RMBS that are not issued or guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac;

Mortgage loans; and

Other financial assets, comprising approximately 5% to 10% of the portfolio.

We seek to deploy moderate leverage as part of our investment strategy. We generally finance our target assets through short-term borrowings structured as repurchase agreements.

We recognize that investing in our target assets is competitive and that we compete with other investment vehicles for attractive investment opportunities. We rely on our management team and Pine River, who have developed strong relationships with a diverse group of financial intermediaries. In addition, we have benefited and expect to continue to benefit from Pine River's analytical and portfolio management expertise and infrastructure. We believe that our significant focus on the RMBS area, the extensive RMBS expertise of our investment team, our strong analytics and our disciplined relative value investment approach give us a competitive advantage versus our peers.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. To qualify as a REIT we are required to meet certain investment and operating tests and annual distribution requirements. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. However, certain activities that we may perform may cause us to earn income which will not be qualifying income for REIT purposes. We have designated our subsidiary, Capitol Acquisition Corp., or Capitol, and will designate another subsidiary, TH TRS Corp. or TH Asset Holdings LLC, as a taxable REIT subsidiary, or TRS, as defined in the Code, to engage in such activities, and we may in the future form additional TRSs. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the 1940 Act.

**Our Corporate Information**

Our headquarters are located at 601 Carlson Parkway, Suite 330, Minnetonka, Minnesota 55305 and our telephone number is (612) 238-3300. We maintain a website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com); however, the information found on this website is not a part of this prospectus.



**Table of Contents****RISK FACTORS**

Investing in our securities involves a number of risks. Before making an investment decision, you should carefully read and consider the information set forth under the heading *Risk Factors* in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q (which descriptions are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus or in any prospectus supplement hereto before making a decision to invest in our securities. See *Where You Can Find More Information*, below.

**USE OF PROCEEDS**

Unless otherwise indicated in an accompanying prospectus supplement, we intend to use the net proceeds received from the sale of the securities offered by this prospectus and the related accompanying prospectus supplement for the purchase of our target assets, including mortgaged-backed securities and residential mortgage loans, in accordance with our objectives and strategies, and for general corporate purposes.

**RATIO OF EARNINGS TO FIXED CHARGES**

(dollars in thousands)	Three Months	Year Ended December 31				
	Ended March 31, 2011	2010	2009	2008	2007	2006
Net income (loss) attributable to common stockholders	\$ 22,377	\$ 35,755	\$ (8,837) <sup>(1)</sup>	\$ 2,059	\$ 715	\$
Fixed charge (interest expense)	2,499	4,421	131			
Earnings adjusted	\$ 24,876	\$ 40,176	\$ (8,706)	\$ 2,059	\$ 715	\$
Ratio of earnings to fixed charges	10.0x	9.1x	NM <sup>(2)</sup>	NM <sup>(2)</sup>	NM <sup>(2)</sup>	

- (1) Net income (loss) attributable to common stockholders includes \$9.6 million of costs associated with the merger of Two Harbors and Capitol.
- (2) Capitol, the accounting acquirer in the merger with Two Harbors completed on October 28, 2009, was formed on June 26, 2007 as a development stage company with no operations. Prior to October 28, 2009, the ratio of earnings to fixed charges is not a meaningful measure.

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

*The following is a summary of the rights and preferences of our capital stock. While we believe that the following descriptions cover the material terms of our capital stock, the descriptions may not contain all of the information that is important to you. We encourage you to read carefully this entire prospectus, our charter and bylaws and the other documents we refer to for a more complete understanding of our capital stock. Copies of our charter and bylaws are incorporated by reference as exhibits to the registration statement of which this prospectus is a part. See Where You Can Find More Information.*

**General**

Our charter provides that we may issue up to 450,000,000 shares of common stock, \$0.01 par value per share, and 50,000,000 shares of preferred stock, \$0.01 par value per share. Our charter authorizes our board of directors, with the approval of a majority of the entire board, to amend our charter to increase or decrease the aggregate number of authorized shares of stock or the number of shares of stock of any class or series without stockholder approval. As of June 24, 2011, 92,277,663 shares of common stock were issued and outstanding, and no shares of preferred stock were issued and outstanding. Under Maryland law, stockholders are not generally liable for our debts or obligations.

**Shares of Common Stock**

All issued and outstanding shares of our common stock are duly authorized, validly issued, fully paid and non-assessable. Subject to the preferential rights of any other class or series of shares of stock and to the provisions of our charter regarding the restrictions on ownership and transfer of shares of stock, holders of shares of common stock are entitled to receive dividends on such shares of common stock out of assets legally available therefor if, as and when authorized by our board of directors and declared by us, and the holders of shares of our common stock are entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all our known debts and liabilities.

All issued and outstanding shares of our common stock have been issued by us and do not represent any interest in or obligation of Pine River. Further, the shares are not a deposit or other obligation of any bank, are not an insurance policy of any insurance company and are not insured or guaranteed by the Federal Deposit Insurance Company, any other governmental agency or any insurance company. The shares of common stock do not benefit from any insurance guaranty association coverage or any similar protection.

Subject to the provisions of our charter regarding the restrictions on ownership and transfer of shares of stock and except as may otherwise be specified in the terms of any class or series of shares of common stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as provided with respect to any other class or series of shares of stock, the holders of such shares of common stock will possess the exclusive voting power. There is no cumulative voting in the election of our board of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors.

Holders of shares of our common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of our securities. Subject to the provisions of our charter regarding the restrictions on ownership and transfer of shares of stock, shares of common stock will have equal dividend, liquidation and other rights.

Under the Maryland General Corporation Law, or MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge with another entity, transfer all or substantially all of its assets, engage in a

## **Table of Contents**

share exchange or engage in similar transactions outside the ordinary course of business unless approved by the affirmative vote of stockholders holding at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides that these matters (other than certain amendments to the provisions of our charter related to the removal of directors, the restrictions on ownership and transfer of shares of our stock and the requirement of a two-thirds vote for amendment to these provisions) may be approved by a majority of all of the votes entitled to be cast on the matter.

### *Transfer Agent and Registrar*

The transfer agent and registrar for our common stock is BNY Mellon Shareowner Services.

### **Shares of Preferred Stock**

The following description sets forth general terms and provisions of the preferred stock to which any prospectus supplement may relate. The statements below describing the preferred stock are in all respects subject to and qualified in their entirety by reference to our charter, as amended and restated, bylaws, and any articles supplementary to our charter, designating terms of a series of preferred stock. The preferred stock, when issued, will be validly issued, fully paid, and non-assessable. Because our board of directors has the power to establish the preferences, powers and rights of each series of preferred stock, our board of directors may afford the holders of any series of preferred stock preferences, powers and rights, voting or otherwise, senior to the rights of our common shareholders.

The rights, preferences, privileges and restrictions of each series of preferred stock will be fixed by the articles supplementary to our charter relating to the series. A prospectus supplement, relating to each series, will specify the terms of the preferred stock, as follows:

the title and stated value of the preferred stock;

the voting rights of the preferred stock, if applicable;

the preemptive rights of the preferred stock, if applicable;

the restrictions on alienability of the preferred stock, if applicable;

the number of shares offered, the liquidation preference per share and the offering price of the shares;

liability to further calls or assessment of the preferred stock, if applicable;

the dividend rate(s), period(s) and payment date(s) or method(s) of calculation applicable to the preferred stock;

the date from which dividends on the preferred stock will accumulate, if applicable;

the procedures for any auction and remarketing for the preferred stock;

## Edgar Filing: Two Harbors Investment Corp. - Form 424B5

the provision for a sinking fund, if any, for the preferred stock;

the provision for and any restriction on redemption, if applicable, of the preferred stock;

the provision for and any restriction on repurchase, if applicable, of the preferred stock;

any listing of the preferred stock on any securities exchange;

the terms and provisions, if any, upon which the preferred stock will be convertible into common stock, including the conversion price (or manner of calculation) and conversion period;

the terms under which the rights of the preferred stock may be modified, if applicable;

any other specific terms, preferences, rights, limitations or restrictions of the preferred stock;

**Table of Contents**

a discussion of certain material federal income tax considerations applicable to the preferred stock;

the relative ranking and preferences of the preferred stock as to dividend rights and rights upon the liquidation, dissolution or winding-up of our affairs;

any limitation on issuance of any series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividend rights and rights upon the liquidation, dissolution or winding-up of our affairs; and

any limitations on direct or beneficial ownership and restrictions on transfer of the preferred stock, in each case as may be appropriate to preserve our qualification as a REIT.

**Power to Reclassify Our Unissued Shares of Stock**

Our charter authorizes our board of directors to classify and reclassify any unissued shares of common or preferred stock into other classes or series of shares of stock. Prior to issuance of shares of each class or series, our board of directors is required by Maryland law and by our charter to set, subject to our charter restrictions on ownership and transfer of shares of stock, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series. Therefore, among other things, our board could authorize the issuance of shares of common or preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders. No shares of preferred stock are presently outstanding, and we have no present plans to issue any shares of preferred stock.

**Power to Increase or Decrease Authorized Shares of Common Stock and Issue Additional Shares of Common and Preferred Stock**

We believe that the power of our board of directors to amend our charter to increase or decrease the number of authorized shares of stock, to issue additional authorized but unissued shares of common or preferred stock and to classify or reclassify unissued shares of common or preferred stock and thereafter to issue such classified or reclassified shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the shares of common stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not intend to do so, the board could authorize us to issue a class or series that could, depending upon the terms of the particular class or series, delay, defer or prevent a change in control or other transaction that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

**Table of Contents**

**DESCRIPTION OF DEPOSITARY SHARES**

**General**

We may issue depositary shares, each of which would represent a fractional interest of a share of a particular series of preferred stock. We will deposit shares of preferred stock represented by depositary shares under a separate deposit agreement among the company, a preferred stock depositary and the holders of the depositary shares. Subject to the terms of the deposit agreement, each owner of a depositary share will possess, in proportion to the fractional interest of a share of preferred stock represented by the depositary share, all the rights and preferences of the preferred stock represented by the depositary shares. Depositary receipts will evidence the depositary shares issued pursuant to the deposit agreement. Immediately after the company issues and delivers preferred stock to a preferred stock depositary, the preferred stock depositary will issue the depositary receipts.

**Dividends and Other Distributions**

The depositary will distribute all cash dividends on the preferred stock to the record holders of the depositary shares. Holders of depositary shares generally must file proofs, certificates and other information and pay charges and expenses of the depositary in connection with distributions. If a distribution on the preferred stock is other than in cash and it is feasible for the depositary to distribute the property it receives, the depositary will distribute the property to the record holders of the depositary shares. If such a distribution is not feasible, the depositary, with our approval, may sell the property and distribute the net proceeds from the sale to the holders of the depositary shares.

**Withdrawal of Stock**

Unless we have previously called the underlying preferred stock for redemption or the holder of the depositary shares has converted such shares, a holder of depositary shares may surrender them at the corporate trust office of the depositary in exchange for whole or fractional shares of the underlying preferred stock together with any money or other property represented by the depositary shares. Once a holder has exchanged the depositary shares, the holder may not redeposit the preferred stock and receive depositary shares again. If a depositary receipt presented for exchange into preferred stock represents more shares of preferred stock than the number to be withdrawn, the depositary will deliver a new depositary receipt for the excess number of depositary shares.

**Redemption of Depositary Shares**

Whenever we redeem shares of preferred stock held by a depositary, the depositary will redeem the corresponding amount of depositary shares with funds it receives from us for the preferred stock. The depositary will notify the record holders of the depositary shares to be redeemed not less than 30 days nor more than 60 days before the date fixed for redemption at the holders' addresses appearing in the depositary's books. The redemption price per depositary share will be equal to the applicable fraction of the redemption price and any other amounts payable with respect to the preferred stock. If we intend to redeem less than all of the underlying preferred stock, we and the depositary will select the depositary shares to be redeemed on as nearly a pro rata basis as practicable without creating fractional depositary shares or by any other equitable method determined by us that preserves our REIT status.

On the redemption date:

all dividends relating to the shares of preferred stock called for redemption will cease to accrue;

we and the depositary will no longer deem the depositary shares called for redemption to be outstanding; and

all rights of the holders of the depositary shares called for redemption will cease, except the right to receive any money payable upon the redemption and any money or other property to which the holders of the depositary shares are entitled upon redemption.

## **Table of Contents**

### **Voting of the Preferred Stock**

When a depositary receives notice regarding a meeting at which the holders of the underlying preferred stock have the right to vote, it will mail that information to the holders of the depositary shares. Each record holder of depositary shares on the record date may then instruct the depositary to exercise its voting rights for the amount of preferred stock represented by that holder's depositary shares. The depositary will vote in accordance with these instructions. The depositary will abstain from voting to the extent it does not receive specific instructions from the holders of depositary shares. A depositary will not be responsible for any failure to carry out any instruction to vote, or for the manner or effect of any vote, as long as any action or non-action is in good faith and does not result from negligence or willful misconduct of the depositary.

### **Liquidation Preference**

In the event of our liquidation, dissolution or winding up, a holder of depositary shares will receive the fraction of the liquidation preference accorded each share of underlying preferred stock represented by the depositary share, in the event such underlying preferred stock is entitled to any such liquidation preference.

### **Conversion of Preferred Stock**

Depositary shares will not themselves be convertible into common stock or any other securities or property of the company. However, if the underlying preferred stock is convertible, holders of depositary shares may surrender them to the depositary with written instructions to convert the preferred stock represented by their depositary shares into whole shares of common stock, other shares of our preferred stock or other shares of stock, as applicable. Upon receipt of these instructions and any amounts payable in connection with a conversion, we will convert the preferred stock using the same procedures as those provided for delivery of preferred