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Two Harbors Investment Corp.
Form 10-Q
August 03, 2012

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: June 30, 2012

Commission File Number 001-34506

TWO HARBORS INVESTMENT CORP.
(Exact Name of Registrant as Specified in Its Charter)

Maryland 27-0312904
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

601 Carlson Parkway, Suite 150 55305
Minnetonka, Minnesota (Zip Code)
(Address of Principal Executive Offices)
(612) 629-2500
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 3, 2012 there were 279,354,704 shares of outstanding common stock, par value \$.01 per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | June 30, 2012 (unaudited) | December 31, 2011 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Available-for-sale securities, at fair value | \$10,724,149 | \$6,249,252 |
| Trading securities, at fair value | 999,375 | 1,003,301 |
| Mortgage loans held-for-sale, at fair value | 11,378 | 5,782 |
| Investment in real estate, net | 71,726 | — |
| Cash and cash equivalents | 496,674 | 360,016 |
| Restricted cash | 138,336 | 166,587 |
| Accrued interest receivable | 35,954 | 23,437 |
| Due from counterparties | 81,039 | 32,587 |
| Derivative assets, at fair value | 361,073 | 251,856 |
| Other assets | 60,998 | 7,566 |
| Total Assets | \$12,980,702 | \$8,100,384 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Repurchase agreements | \$10,438,441 | \$6,660,148 |
| Derivative liabilities, at fair value | 82,619 | 49,080 |
| Accrued interest payable | 11,545 | 6,456 |
| Due to counterparties | 166,949 | 45,565 |
| Accrued expenses | 11,164 | 8,912 |
| Dividends payable | 87,061 | 56,239 |
| Income taxes payable | 266 | 3,898 |
| Total liabilities | 10,798,045 | 6,830,298 |
| Stockholders' Equity | | |
| Preferred stock, par value \$0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, par value \$0.01 per share; 450,000,000 shares authorized and 219,655,462 and 140,596,708 shares issued and outstanding, respectively | 2,196 | 1,406 |
| Additional paid-in capital | 2,142,554 | 1,373,099 |
| Receivable from issuance of common stock | (22,248 |) — |
| Accumulated other comprehensive income (loss) | 202,798 | (58,716) |
| Cumulative earnings | 233,256 | 157,452 |
| Cumulative distributions to stockholders | (375,899 |) (203,155) |
| Total stockholders' equity | 2,182,657 | 1,270,086 |
| Total Liabilities and Stockholders' Equity | \$12,980,702 | \$8,100,384 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TWO HARBORS INVESTMENT CORP.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands, except share data)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| | (unaudited) | | (unaudited) | |
| Interest income: | | | | |
| Available-for-sale securities | \$ 104,319 | \$ 39,959 | \$ 188,533 | \$ 59,494 |
| Trading securities | 1,250 | 805 | 2,300 | 1,077 |
| Mortgage loans held-for-sale | 126 | — | 195 | — |
| Cash and cash equivalents | 209 | 64 | 377 | 127 |
| Total interest income | 105,904 | 40,828 | 191,405 | 60,698 |
| Interest expense | 15,527 | 3,863 | 26,994 | 6,362 |
| Net interest income | 90,377 | 36,965 | 164,411 | 54,336 |
| Other-than-temporary impairments: | | | | |
| Total other-than temporary impairment losses | (4,476 |) (294 |) (8,751 |) (294 |
| Non-credit portion of loss recognized in other comprehensive income | — | — | — | — |
| Net other-than-temporary credit impairment losses | (4,476 |) (294 |) (8,751 |) (294 |
| Other income: | | | | |