

TWO HARBORS INVESTMENT CORP.  
Form DEF 14A  
March 26, 2015  
[Table of Contents](#)

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

Two Harbors Investment Corp.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:



Table of Contents

March 26, 2015

Dear Fellow Stockholders:

On behalf of the Board of Directors of Two Harbors Investment Corp., it is my pleasure to invite you to the 2015 Annual Meeting of Stockholders of Two Harbors Investment Corp., a Maryland corporation, which will be held at The Ritz-Carlton, Naples, 280 Vanderbilt Beach Road, Naples, Florida 34108, on Thursday, May 14, 2015, at 11:00 a.m. Eastern Daylight Time (the Annual Meeting ).

The accompanying Notice of Annual Meeting of Stockholders and Proxy Statement describe the business to be conducted at the Annual Meeting and details regarding admission to the Annual Meeting. Consistent with prior years, we will be using the Notice and Access method of furnishing proxy materials to you over the Internet. We believe that this process will provide you with a convenient and quick way to access our proxy materials and vote your shares, while allowing us to reduce the environmental impact of our Annual Meeting and the costs of printing and distributing the proxy materials. On or about March 26, 2015, we will commence mailing to our stockholders a Notice of Internet Availability of Proxy Materials, which contains information regarding access to our proxy materials and voting information. We will not be mailing the notice to our stockholders who previously elected to receive paper copies of our proxy materials, but rather will mail those stockholders a full set of our proxy materials.

It is important that your shares be represented at our Annual Meeting, regardless of the number of shares you hold and whether or not you plan to attend the meeting in person. Accordingly, we encourage you to authorize your vote as soon as possible by following the instructions contained in the Notice of Internet Availability of Proxy Materials you receive for our Annual Meeting.

Thank you for your continued support of Two Harbors Investment Corp. We hope that you will be able to attend our Annual Meeting.

Sincerely,

Thomas E. Siering

*President and Chief Executive Officer*

---

Table of Contents

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**Date and Time:** Thursday, May 14, 2015, at 11:00 a.m. Eastern Daylight Time

**Place:** The Ritz-Carlton, Naples, 280 Vanderbilt Beach Road, Naples, Florida 34108

- Items of Business:**
- (1) To elect eight directors, with each director serving until our next annual meeting of stockholders and until his or her successor is elected and qualified;
  - (2) To hold an advisory vote relating to the compensation of our executive officers;
  - (3) To approve the Two Harbors Second Restated 2009 Equity Incentive Plan;
  - (4) To approve the ratification of the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015; and
  - (5) To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

**Record Date:** You may vote at the Annual Meeting if you were a stockholder of record as of the close of business on March 19, 2015.

**Proxy Materials:** On or about March 26, 2015, we expect to commence mailing of a Notice of Internet Availability of Proxy Materials, which contains information regarding access to our proxy materials and voting information. Our Proxy Statement and 2014 Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com). Whether or not you plan to attend the Annual Meeting, please vote your shares by proxy to ensure they are represented at the Annual Meeting.

**Admission Policy:** Only stockholders who own shares of our common stock as of the record date may attend the Annual Meeting. We encourage you to register to attend in advance of the Annual Meeting by contacting our Investor Relations Department by phone at (612) 629-2500 or by email at [investors@twoharborsinvestment.com](mailto:investors@twoharborsinvestment.com). ***Attendance at the Annual Meeting will be limited to stockholders presenting valid government-issued photo identification and proof of stock ownership as of the record date.***

If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you are considered the stockholder of record. If you are a stockholder of record, you must present valid government-issued photo identification and proof of ownership, which may include a copy of your account statement from our transfer agent or a copy of your stock certificate.

If your shares are held in a stock brokerage account or by a bank, trustee or other nominee, you are considered the beneficial owner of shares held in street name. If you are a beneficial owner, you must present valid government-issued photo identification and proof of share ownership by providing a bank or brokerage firm account statement or a letter from the broker, trustee, bank or nominee holding your shares.

Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

BY ORDER OF THE BOARD OF DIRECTORS,

Rebecca B. Sandberg  
*General Counsel and Secretary*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR  
THE 2015 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 14, 2015:**

**Our Proxy Statement and 2014 Annual Report, which includes our Annual Report on Form 10-K**

**for the fiscal year ended December 31, 2014, are available at [www.proxyvote.com](http://www.proxyvote.com).**

---

Table of Contents

**TABLE OF CONTENTS**

<u>GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING</u>	1
<u>What is the purpose of the Annual Meeting?</u>	1
<u>Who is entitled to vote at the Annual Meeting?</u>	1
<u>What are my voting rights?</u>	2
<u>How many shares must be present to hold the Annual Meeting?</u>	2
<u>What is a proxy?</u>	2
<u>What is a proxy statement?</u>	2
<u>What is the difference between a stockholder of record and a beneficial owner?</u>	2
<u>Why did I receive a notice instead of a full set of proxy materials?</u>	2
<u>Why did I receive more than one notice or printed set of proxy materials?</u>	3
<u>How can I obtain a paper copy or an electronic copy of the proxy materials?</u>	3
<u>How can I vote prior to the Annual Meeting?</u>	3
<u>Can I vote my shares in person at the Annual Meeting?</u>	3
<u>What vote is required to approve each proposal to be voted on at the Annual Meeting?</u>	4
<u>How does the Board of Directors recommend that I vote on the proposals?</u>	4
<u>What if I do not specify how I want my shares voted?</u>	4
<u>What is the effect of abstentions and broker non-votes?</u>	5
<u>Can I change my vote after submitting my proxy?</u>	5
<u>Who will count the votes?</u>	5
<u>How can I attend the Annual Meeting?</u>	5
<u>What is householding?</u>	6
<u>Who pays for the cost of proxy preparation and solicitation?</u>	6
<u>Who can help answer my questions?</u>	6
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	7
<u>Board Composition</u>	7
<u>Director Nominations</u>	7
<u>Director Nominees</u>	7
<u>CORPORATE GOVERNANCE AND BOARD OF DIRECTORS</u>	12
<u>Code of Business Conduct and Ethics</u>	12
<u>Director Independence</u>	12
<u>Board Leadership Structure</u>	12
<u>Board Committees</u>	13
<u>Role of Our Board of Directors in Risk Oversight</u>	15
<u>Board Meetings</u>	15
<u>Director Nomination Process</u>	16
<u>Majority Voting for Directors and Director Resignation Policy</u>	16

Table of Contents

<u>Communications with our Board of Directors</u>	17
<u>Director Compensation</u>	17
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	19
<u>Compensation Committee Interlocks and Insider Participation</u>	19
<u>Transactions with Related Persons</u>	19
<u>Related Person Transaction Policies</u>	20
<u>STOCK OWNERSHIP</u>	21
<u>Director Stock Ownership Guidelines</u>	21
<u>Beneficial Ownership of Directors, Director Nominees and Named Executive Officers</u>	21
<u>Beneficial Owners of More than Five Percent of Our Common Stock</u>	22
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	22
<u>EXECUTIVE OFFICERS</u>	23
<u>Executive Officers</u>	23
<u>Executive Compensation Overview</u>	24
<u>Compensation Discussion and Analysis</u>	24
<u>Employment Agreements</u>	28
<u>Pension Benefits or Nonqualified Deferred Compensation</u>	28
<u>Summary Compensation Table</u>	28
<u>Grants of Plan-Based Awards</u>	28
<u>Outstanding Equity Awards at Fiscal Year End</u>	29
<u>Potential Payments upon Termination or Change in Control</u>	29
<u>COMPENSATION COMMITTEE REPORT</u>	30
<u>PROPOSAL 2: ADVISORY VOTE RELATING TO EXECUTIVE COMPENSATION</u>	30
<u>PROPOSAL 3: APPROVAL OF TWO HARBORS SECOND RESTATED 2009 EQUITY INCENTIVE PLAN</u>	31
<u>PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	38
<u>AUDIT COMMITTEE REPORT AND AUDITOR FEES</u>	38
<u>Audit Committee Report</u>	38
<u>Use of Audit Committee Report</u>	39
<u>Auditor Fees</u>	39
<u>Auditor Services Pre-Approval Policy</u>	39
<u>OTHER MATTERS</u>	40
<u>Meeting Matters</u>	40
<u>Stockholder Proposals and Director Nominations for 2016 Annual Meeting</u>	40
<u>Annual Report</u>	40
<u>APPENDIX A: TWO HARBORS SECOND RESTATED 2009 EQUITY INCENTIVE PLAN</u>	A-1



Table of Contents

**TWO HARBORS INVESTMENT CORP.**

**PROXY STATEMENT**

**2015 ANNUAL MEETING OF STOCKHOLDERS**

*Thursday, May 14, 2015*

*11:00 a.m. Eastern Daylight Time*

The Board of Directors of Two Harbors Investment Corp., a Maryland corporation, is using this proxy statement to solicit your proxy for use at our Annual Meeting of Stockholders to be held on Thursday, May 14, 2015, at 11:00 a.m. Eastern Daylight Time, and any adjournment or postponement of the meeting (the Annual Meeting). References in this proxy statement to Two Harbors, company, we, us, our and similar refer to Two Harbors Investment Corp.

**GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting  
to be held on May 14, 2015**

This proxy statement and our 2014 Annual Report, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, are available at [www.proxyvote.com](http://www.proxyvote.com).

Pursuant to rules adopted by the U.S. Securities and Exchange Commission, or SEC, we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice of Availability) to our stockholders of record as of the close of business on March 19, 2015. All stockholders will be able to access our proxy materials on the website referred to in the Notice of Availability ([www.proxyvote.com](http://www.proxyvote.com)) or request to receive a printed set of our proxy materials. Instructions on how to access our proxy materials over the Internet or request a printed copy of our proxy materials may be found in the Notice of Availability.

**What is the purpose of the Annual Meeting?**

The purpose of the Annual Meeting is to vote on the following matters:

- (1) To elect eight directors, with each director serving until our next annual meeting of stockholders and until his or her successor is elected and qualified;
- (2) To hold an advisory vote relating to the compensation of our executive officers;
- (3) To approve the Two Harbors Second Restated 2009 Equity Incentive Plan;
- (4) To approve the ratification of the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015; and
- (5) To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

**Who is entitled to vote at the Annual Meeting?**

Our Board of Directors has fixed the close of business on March 19, 2015, as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and any postponements or adjournments thereof. On the record date, there were 366,564,335 shares of our common stock outstanding. Only stockholders as of the record date are entitled to vote at the Annual Meeting.

A stockholder list will be available at our principal executive office beginning May 4, 2015 during normal business hours for examination by any stockholder registered on our stock ledger as of the record date for any

Table of Contents

purpose pertaining to the Annual Meeting. Our principal executive office is located at 590 Madison Avenue, 36th Floor, New York, New York 10022.

**What are my voting rights?**

You are entitled to one vote for each share of our common stock held by you on the record date on all matters presented at the Annual Meeting or any adjournment or postponement thereof. There is no cumulative voting.

**How many shares must be present to hold the Annual Meeting?**

The presence, in person or by proxy, of the holders of shares entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting will constitute a quorum for the transaction of business at the Annual Meeting. Shares represented by proxies received but marked as abstentions will be included in the calculation of the number of shares considered to be present at the Annual Meeting. Pursuant to Maryland law, broker non-votes and abstentions are not included in the determination of the shares of common stock voting on such matter, but are counted for quorum purposes.

**What is a proxy?**

A proxy is your designation of another person to vote shares of our common stock that you own. The person you designate is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. When you designate a proxy, you also may direct the proxy how to vote your shares. We refer to this as your proxy vote. Two executive officers have been designated as proxies for our Annual Meeting. These executive officers are Thomas E. Siering, our Chief Executive Officer, and Rebecca B. Sandberg, our General Counsel and Secretary.

**What is a proxy statement?**

A proxy statement is a document that we are required to make available to you by Internet or, if you request, by mail in accordance with regulations of the SEC, when we ask you to designate proxies to vote your shares of our common stock at a meeting of our stockholders. The proxy statement includes information regarding the matters to be acted upon at the Annual Meeting and certain other information required by regulations of the SEC and rules of the New York Stock Exchange ( NYSE ).

**What is the difference between a stockholder of record and a beneficial owner?**

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you are considered the stockholder of record with respect to those shares.

If your shares are held in a stock brokerage account, or by a bank, trustee or other nominee, you are considered the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your broker, bank, trustee or nominee on how to vote the shares that you beneficially own and you are also invited to attend our Annual Meeting. However, beneficial owners generally cannot vote their shares directly because they are not the stockholder of record and must instead instruct the broker, bank, trustee or other nominee how to vote their shares using the method described below under *How can I vote prior to the Annual Meeting?*

### **Why did I receive a notice instead of a full set of proxy materials?**

As permitted by SEC rules, we have elected to provide access to our proxy materials over the Internet, which reduces our costs and the environmental impact of our Annual Meeting. Accordingly, we mailed a Notice of Availability to our stockholders of record and beneficial owners who have not previously requested a printed set of proxy materials. The Notice of Availability contains instructions on how to access our proxy materials and vote online as well as instructions on how to request a printed set of proxy materials.

Table of Contents

**Why did I receive more than one notice or printed set of proxy materials?**

If you receive more than one Notice of Availability or printed set of proxy materials, it likely means that you hold shares of our common stock in more than one account. To ensure that all of your shares are voted, you should vote once for each control number you receive, as described below under *How can I vote prior to the Annual Meeting?*

**How can I obtain a paper copy or an electronic copy of the proxy materials?**

To obtain a paper copy or an electronic copy of the proxy materials, you will need your control number, which was provided to you in the Notice of Availability or the proxy card included with your printed set of proxy materials. Once you have your control number, you may request a paper copy or an electronic copy of our proxy materials using any of the following methods: (i) visit [www.proxyvote.com](http://www.proxyvote.com) and enter your control number when prompted; (ii) call 1-800-579-1639 and enter your control number when prompted; or (iii) send an email requesting electronic delivery of the materials to [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com).

**How can I vote prior to the Annual Meeting?**

**Stockholders of Record.** If you are a stockholder of record, you may vote your shares or submit a proxy to be voted at the Annual Meeting by one of the following methods:

- **By Internet** - You may authorize your proxy online via the Internet by accessing the website [www.proxyvote.com](http://www.proxyvote.com) and following the instructions provided on the Notice of Availability or proxy card. Internet voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern Daylight Time, on May 13, 2015. To vote by Internet, you will need to use the control number listed on your Notice of Availability or proxy card, which was provided to you by our vote tabulator, Broadridge Financial Solutions, Inc.; then follow the additional steps when prompted. These steps have been designed to authenticate your identity, allow you to give voting instructions, and confirm that those instructions have been recorded properly.
- **By Telephone** - You may authorize your proxy by touch-tone telephone by calling 1-800-690-6903. Telephone voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern Daylight Time, on May 13, 2015. To vote by telephone, you will need to use the control number listed on the Notice of Availability or proxy card, which was provided to you by our vote tabulator, Broadridge Financial Solutions, Inc.; then follow the additional steps when prompted. The steps have been designed to authenticate your identity, allow you to give voting instructions, and confirm that those instructions have been recorded properly.
- **By Mail** - If you request paper copies of the proxy materials to be sent to you by mail, you may authorize your proxy by completing, signing and dating your proxy card and returning it in the reply envelope included with the paper proxy materials.

**Beneficial Owners.** If your shares are held in a stock brokerage account or by a bank, trustee or other nominee, you are considered the beneficial owner of shares held in street name. If you hold your shares in street name, you must vote your shares in the manner prescribed by your broker, bank, trustee or other nominee, which is similar to the voting procedures for stockholders of record. Other than the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2015, the rules do not permit your broker, bank, trustee or other nominee to vote your shares of stock on any proposal unless you provide them with instructions on how to vote your shares of common stock. You should instruct your broker, bank, trustee or other nominee how to vote your shares of stock by following the directions provided by such party. However, if you request the proxy materials by mail after receiving a Notice of Availability from your broker, bank, trustee or other nominee, you will receive a voting instruction form (not a proxy card) to use in directing such party how to vote your shares.

**Can I vote my shares in person at the Annual Meeting?**

If you are a stockholder of record, you may vote your shares in person at the Annual Meeting by completing a ballot at the Annual Meeting. Even if you currently plan to attend the Annual Meeting, we recommend that you

Table of Contents

submit your proxy as described above so your vote will be counted if you later decide not to attend. If you submit your vote by proxy and later decide to vote in person at the Annual Meeting, the vote you submit at the Annual Meeting will override your proxy vote.

If you are a beneficial owner, you may vote your shares in person at the Annual Meeting only if you obtain and bring to the Annual Meeting a signed letter or other form of proxy from your broker, bank, trustee or other nominee giving you the right to vote the shares at the Annual Meeting.

**What vote is required to approve each proposal to be voted on at the Annual Meeting?**

- **Proposal 1** Each of the eight director nominees who receive a majority of all votes cast for a director nominee at the Annual Meeting, in person or by proxy, will be elected. See *Corporate Governance and Board of Directors – Majority Voting for Directors and Director Resignation Policy*.
- **Proposal 2** The affirmative vote of a majority of all votes cast at the Annual Meeting, in person or by proxy, is required to approve the advisory vote on compensation of our executive officers.
- **Proposal 3** The affirmative vote of a majority of all votes cast at the Annual Meeting, in person or by proxy, is required to approve the Two Harbors Second Restated 2009 Equity Incentive Plan.
- **Proposal 4** The affirmative vote of a majority of all votes cast at the Annual Meeting, in person or by proxy, is required to ratify the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

**How does the Board of Directors recommend that I vote on the proposals?**

Our Board of Directors recommends that stockholders vote as follows for each of the proposals to be presented at the Annual Meeting:

- **Proposal 1** **FOR** each of the nominees for director;
- **Proposal 2** **FOR** the advisory vote relating to the compensation of our executive officers;

- **Proposal 3** FOR the approval of the Two Harbors Second Restated 2009 Equity Incentive Plan; and
- **Proposal 4** FOR the ratification of the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

**What if I do not specify how I want my shares voted?**

If you are a stockholder of record and submit a signed proxy card, but do not specify how you want to vote your shares on a particular proposal, your shares will be voted as follows:

- **Proposal 1** FOR each of the nominees for director;
- **Proposal 2** FOR the advisory vote relating to the compensation of our executive officers;
- **Proposal 3** FOR the approval of the Two Harbors Second Restated 2009 Equity Incentive Plan; and
- **Proposal 4** FOR the ratification of the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

**Your vote is important. We urge you to vote, or to instruct your broker, bank, trustee or other nominee how to vote, on all matters before the Annual Meeting.** If you are a beneficial owner and fail to instruct the stockholder of record how you want to vote your shares on a particular matter, those shares will be deemed uninstructed. NYSE rules determine the circumstances under which member brokers of the NYSE may exercise discretion to vote uninstructed shares held by them on behalf of their clients who are beneficial owners. Other than the ratification of the appointment of Ernst & Young LLP as our independent public accounting firm for the year ending December 31, 2015, the rules do not permit member brokers to exercise voting discretion for uninstructed shares on any matter to be voted on at our Annual Meeting. With respect to the ratification of the selection of Ernst & Young LLP as our independent public accountant for our fiscal year ending December 31, 2015, the rules permit member brokers to exercise voting discretion as to the uninstructed shares. For matters with respect to which the broker, bank, trustee or



Table of Contents

other nominee does not have voting discretion or has, but does not exercise, voting discretion, the uninstructed shares will be referred to as a broker non-vote. For more information regarding the effect of broker non-votes on the outcome of the vote, please see *What is the effect abstentions and broker non-votes?*

**What is the effect of abstentions and broker non-votes?**

An abstention occurs when a stockholder of record abstains from voting or does not vote on a proposal. A broker non-vote occurs when a broker has not received voting instructions from the beneficial owner and the broker does not have discretionary authority to vote the shares because the proposal is one other than ratification of the appointment of our independent public accounting firm. For more information regarding discretionary voting, please see *What if I do not specify how I want my shares voted?*

For purposes of approving Proposals 1, 2, 3 and 4, abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on the result of the vote on such proposals, although they will be considered present for the purpose of determining the presence of a quorum.

**Can I change my vote after submitting my proxy?**

You may change your vote at any time before the proxy is exercised. For stockholders of record, if you voted by mail, you may revoke your proxy at any time before it is voted by executing and delivering a timely and valid later-dated proxy, by voting in person by ballot at the Annual Meeting or by giving written notice of such revocation to the Secretary. If you voted by Internet or telephone, you may also change your vote with a timely and valid later-dated Internet or telephone vote, as the case may be, or by voting in person by ballot at the Annual Meeting. Attendance at the Annual Meeting will not have the effect of revoking a proxy unless (i) you give proper written notice of revocation to the Secretary before the proxy is exercised; or (ii) you vote by ballot in person at the Annual Meeting.

Notices of revocation of proxies should be sent to Two Harbors Investment Corp., Attention: Rebecca B. Sandberg, General Counsel and Secretary, 590 Madison Avenue, 36th Floor, New York, New York 10022.

**Who will count the votes?**

Broadridge Financial Solutions, Inc., our independent proxy tabulator, will count the votes and will act as our inspector of election for the Annual Meeting.

**How can I attend the Annual Meeting?**

The Annual Meeting will be held on Thursday, May 14, 2015, at The Ritz-Carlton, Naples, 280 Vanderbilt Beach Road, Naples, Florida 34108. Only stockholders who own shares of our common stock as of the record date, March 19, 2015, may attend the Annual Meeting. We encourage you to register to attend in advance of the Annual Meeting by contacting our Investor Relations Department by phone at (612) 629-2500 or by emailing [investors@twoharborsinvestment.com](mailto:investors@twoharborsinvestment.com). Attendance at the Annual Meeting will be limited to persons presenting valid government-issued photo identification and proof of stock ownership as of the record date, March 19, 2015. No cameras, recording devices or large packages will be permitted in the meeting room. For information to help determine whether you are a stockholder of record or a beneficial owner, please see *What is the difference between a stockholder of record and a beneficial owner?*

**Stockholders of Record.** If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you will need to present the following to gain admission to the Annual Meeting:

- valid government-issued photo identification; and
- proof of ownership as of the record date, which may include a copy of your account statement from our transfer agent or a copy of your stock certificate.

**Beneficial Owners.** If you are a beneficial owner of shares held in street name by a broker, bank, trustee or other nominee, you will need to present the following to gain admission to the Annual Meeting:

- valid government-issued photo identification; and

Table of Contents

- proof of share ownership as of the record date, by providing a bank or brokerage firm account statement or a letter from the broker, trustee, bank or nominee holding your shares.

**What is householding?**

We may send a single Notice of Availability, as well as other stockholder communications, to any household at which two or more stockholders reside unless we receive other instruction from you. This practice, known as householding, is designed to reduce duplicate mailings and printing and postage costs, and conserve natural resources. If your Notice of Availability is being householded and you wish to receive multiple copies of the Notice of Availability, or if you are receiving multiple copies and would like to receive a single copy, you may contact:

Broadridge Financial Solutions, Inc.

Householding Department

51 Mercedes Way

Edgewood, New York 11717

1-800-542-1061

If you participate in householding and would like to receive a separate copy of our 2014 Annual Report, Notice of Availability or proxy statement, please contact Broadridge in the manner described in above. Broadridge will deliver the requested documents to you promptly upon receipt of your request.

**Who pays for the cost of proxy preparation and solicitation?**

We will pay the cost of soliciting proxies and may make arrangements with brokerage houses, custodians, nominees and other fiduciaries to send proxy materials to beneficial owners of our common stock. We will reimburse these third parties for reasonable out-of-pocket expenses. In addition to solicitation by mail, our directors and officers may solicit proxies by telephone, electronic transmission and personally. Our directors and officers will not receive any special compensation for such services. We have retained Morrow & Co., LLC, 470 West Avenue, Stamford, Connecticut 06902, for an estimated fee of \$8,500, plus out of pocket expenses, to assist us in soliciting proxies.

**Who can help answer my questions?**

If you have any questions or need assistance voting your shares or if you need additional copies of this proxy statement or the enclosed proxy card, please contact our Investor Relations department at our principal executive office:

Two Harbors Investment Corp.

590 Madison Avenue, 36th Floor

New York, New York 10022

Phone (612) 629-2500

Facsimile: (612) 629-2501

Email: *investors@twoharborsinvestment.com*

Attention: Investor Relations

Table of Contents

**PROPOSAL 1: ELECTION OF DIRECTORS**

**Board Composition**

Pursuant to our Charter and Bylaws, our directors are elected by stockholders each year at our annual meeting to serve terms expiring at the next annual meeting. Our Charter and Bylaws provide that our Board of Directors may be comprised of no less than the number of directors required by the Maryland General Corporation Law and no more than 15, with the precise number to be set by our Board of Directors. The Board of Directors has set the size of our Board at nine, and our Board of Directors is currently comprised of nine directors.

**Director Nominations**

Action will be taken at the Annual Meeting for the election of eight directors, each to hold office until our annual meeting of stockholders to be held in 2016 or until his or her successor is duly elected and qualified. Two of our current directors, Mark D. Ein and Jacques R. Rolfo, were not nominated for reelection at our 2015 Annual Meeting, at which time their current terms will expire. If each of the director nominees identified below is elected, we will have one vacancy on our Board, which we intend to fill in the future. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Information concerning each of the eight director nominees standing for election to our Board of Directors at the Annual Meeting is set forth below. Each of the nominees has been recommended for nomination by the Nominating and Corporate Governance Committee and nominated by our Board of Directors. It is expected that each of the director nominees will be able to serve, but if any such nominee is unable to serve for any reason, the proxies reserve discretion to vote or refrain from voting for a substitute nominee or nominees.

We believe that each of the director nominees displays personal and professional integrity; satisfactory levels of education and/or business experience; business acumen; an appropriate level of understanding of our business and its industry and other industries relevant to our business; the ability and willingness to devote adequate time to the work of our Board of Directors and its Committees; a fit of skills and personality with those of our other directors that helps build a board that is effective and responsive to the needs of our company; strategic thinking and a willingness to express ideas; a diversity of experiences, expertise and background; and the ability to represent the interests of our stockholders. The information presented below regarding each director nominee also sets forth specific experience, qualifications, attributes and skills that led our Board of Directors to conclude that he or she should be nominated to stand for election to serve as a director.

**Director Nominees**

Name	Age	Background Information
E. Spencer Abraham	62	<i>E. Spencer Abraham</i> is an independent member of our Board of Directors and has served as a director of our company since May 2014. Since 2005, Secretary Abraham has served as the Chairman and Chief Executive Officer of The Abraham Group LLC, an international strategic consulting firm based in

Washington, D.C. He is also the Chairman and Chief Executive Officer of Abraham & Roetzel LLC, a bipartisan government affairs and issues management firm. He represented the State of Michigan in the United States Senate prior to President George W. Bush selecting him as the tenth Secretary of Energy. During his tenure at the Energy Department from 2001 through January 2005, he developed policies and regulations to ensure the nation's energy security, was responsible for the U.S. Strategic Petroleum Reserve, oversaw domestic oil and gas development policy, and developed relationships with international governments, including members of the Organization of the Petroleum Exporting Countries. Secretary Abraham serves as a director of Occidental Petroleum Corporation (NYSE: OXY), where he is a member of its management success and talent development, corporate governance, nominating and social responsibility, environmental, health and safety, and executive compensation committees; PBF Energy Inc. (NYSE: PBF), where he is a member of its compensation and nominating and corporate governance committees; and NRG Energy, Inc. (NYSE: NRG), where he is a member of its compensation and nuclear oversight committees. Secretary Abraham serves

Table of Contents

Name	Age	Background Information
		<p>as the chairman of the Advisory Boards of Lynx Global Realty Asset Fund Onshore LLC and Uranium Energy Corp. He previously served as a director of GenOn Energy, Inc. and as a director and member of the nominating and corporate governance and compensation committees of ICx Technologies. Secretary Abraham is an Advisory Board member of the Churchill Center. He holds a J.D. from Harvard Law School. We believe Secretary Abraham is qualified to serve as a director of the company because of his extensive public company board experience.</p>
James J. Bender	58	<p><b>James J. Bender</b> is an independent member of our Board of Directors and has served as a director of our company since May 2013. Mr. Bender served as Senior Vice President Special Projects of WPX Energy, Inc. (NYSE: WPX) from May 2014 to July 2014. Previously, he served as the President and Chief Executive Officer of WPX Energy and as a member of the WPX Energy board of directors from December 2013 to May 2014 and was Senior Vice President and General Counsel of WPX Energy from April 2011 to December 2013. From 2002 to 2011, he served as General Counsel and Corporate Secretary of The Williams Companies Inc. and General Counsel of Williams Partners GP LLC, the general partner of Williams Partners, since September 2005. Mr. Bender served as the General Counsel of the general partner of Williams Pipeline Partners L.P., from 2007 until its merger with Williams Partners in August 2010. From June 2000 to June 2002, Mr. Bender was Senior Vice President and General Counsel of NRG Energy, Inc., and was its Vice President, General Counsel, and Secretary from June 1997 to June 2000. Prior to joining NRG Energy, Mr. Bender served in a variety of other legal roles, including as a partner at Maslon Edelman Borman &amp; Brand in Minneapolis, Minnesota and an associate at Gibson, Dunn &amp; Crutcher. Mr. Bender has served as director of the general partner of Shell Midstream Partners, L.P. (NYSE: SHLX) since October 2014, where he is chairman of the conflicts committee. Mr. Bender also served as director and chairman of the board of directors for Apco Oil &amp; Gas International Inc. (NASDAQ: APAGF), an affiliate of WPX Energy, Inc., from December 2013 to August 2014. Mr. Bender is a member of the board of trustees of the Philbrook Museum of Art, the board of directors of the KIPP School Tulsa, and the board of visitors of the Sustainable Energy and Resources Law Program at the University of Tulsa College of Law. Mr. Bender received a Bachelor's degree in mathematics from St. Olaf College and a Juris Doctorate degree from the University of Minnesota Law School. We believe Mr. Bender is qualified to serve as a director because of his experience with and knowledge of corporate governance, regulatory matters and issues applicable to a public company and its board of directors.</p>
Stephen G. Kasnet	69	<p><b>Stephen G. Kasnet</b> is an independent member of our Board of Directors and serves as our lead independent director. Mr. Kasnet has been a director of our company since our merger with Capitol Acquisition Corp. (Capitol) in October of 2009. Mr. Kasnet is also a director of: Columbia Laboratories, Inc., a specialty pharmaceuticals company (NASDAQ: CBRX), where he is chairman of the board; Rubicon Ltd. (NZX: RBC), where he is chairman of the board; and Silver Bay Realty Trust Corp. (NYSE: SBY), where he serves on the audit and compensation committees. He was the chairman of Dartmouth Street Capital LLC, a private investment firm, from 2007 through October 2009. He was also the President and Chief Executive Officer of Raymond Property Company LLC, a real estate company, from 2007 through October 2009. From 2000 to 2006, he was President and Chief Executive Officer of Harbor Global Company, Ltd., an asset management, natural resources and real estate investment company, and President of PIOglobal, a Russian real estate investment fund. From 1995 to 1999, Mr. Kasnet was a director and member of the executive committee of The Bradley Real Estate Trust. He was Chairman of Warren Bank from 1990 to 2003. He has also held senior management positions with other financial organizations,</p>

Table of Contents

Name	Age	Background Information
		including Pioneer Group, Inc., First Winthrop Corporation and Winthrop Financial Associates, and Cabot, Cabot and Forbes. He serves as a director of Tenon Ltd., a wood products company, and serves as a director of First Ipswich Bank. He is also a trustee of the Governor's Academy, a private coed boarding high school in Byfield, Massachusetts. Mr. Kasnet received a B.A. from the University of Pennsylvania. Mr. Kasnet was originally appointed as a director pursuant to contractual rights of Pine River Capital Management, L.P., or Pine River, granted in the merger agreement with Capitol. We believe Mr. Kasnet is qualified to serve as a director based on his audit committee experience and his experience as a director of public companies.
William Roth	57	<b>William Roth</b> is a director nominee and our Chief Investment Officer. Mr. Roth has served as our Chief Investment Officer since January 2013. He has been an employee of Pine River since 2009 and previously served as our Co-Chief Investment Officer prior to his appointment as Chief Investment Officer. Mr. Roth was named a Partner of Pine River in January 2013. Prior to joining Pine River, Mr. Roth was at Citigroup Inc., a financial services organization, and its predecessor firm, Salomon Brothers, Inc., for 28 years where he was named a Director in 1987 and a Managing Director in 1997. From 2004 to 2009, Mr. Roth managed a proprietary trading book at Citigroup with particular focus on mortgage and asset-backed securities. From 1994 to 2004, Mr. Roth was part of the Salomon/Citi New York Mortgage Sales Department. From 1981 to 1994, Mr. Roth managed the Chicago Financial Institutions Sales Group for Salomon Brothers, Inc. He received an M.B.A. with a concentration in Finance from the University of Chicago Graduate School of Business and a B.S. in Finance and Economics from Miami University in Oxford, Ohio. We believe Mr. Roth is qualified to serve as a director because of his investment and trading expertise as well as his knowledge of PRCM Advisers LLC ( PRCM Advisers ) and its affiliate organizations, which helps ensure that adequate resources are devoted to our company by PRCM Advisers.
W. Reid Sanders	65	<b>W. Reid Sanders</b> is an independent member of our Board of Directors and has served as a director of our company since our merger with Capitol in October 2009. Since 2010, he has served as a director and member of the audit committee of Mid-America Apartment Communities, Inc., a Delaware REIT that owns and operates apartment complexes (NYSE: MAA). Mr. Sanders currently serves as the President of Sanders Properties, Inc., a real estate company; is a member of the board, executive committee and compensation committee of Independent Bank, a bank holding company; serves on the Investment Committee at Cypress Realty, a real estate company; and is on the Advisory Board of SSM Venture Partners III, L.P., a private venture capital firm. He is the former chairman at Two Rivers Capital Management, and his former directorships include Harbor Global Company Ltd., an asset management, natural resources and real estate investment company, PioGlobal Asset Management, a Russian private investment management company, The Pioneer Group Inc., a global investment management firm, and TBA Entertainment Corporation, a strategic communications and entertainment marketing company. Mr. Sanders was the co-founder and former Executive Vice President of Southeastern Asset Management, and the former President of Longleaf Partners Mutual Funds, a family of funds in Memphis from 1975-2000. He served as an Investment Officer at First Tennessee Investment Management, the investment management division of First Horizon National Corporation, from 1973-1975. Mr. Sanders worked in Credit Analysis and Commercial Lending at Union Planters National Bank from 1971-1972. Mr. Sanders is a trustee of the Hugo Dixon Foundation, the Dixon Gallery and Gardens, the Hutchison School, Rhodes College, and the TN Shakespeare Company, and is a former trustee of The Jefferson Scholars Foundation and the Campbell Clinic Foundation. He received a Bachelor's Degree



Table of Contents

Name	Age	Background Information
		of Economics from the University of Virginia. Mr. Sanders was originally appointed as a director pursuant to contractual rights of Pine River granted in the merger agreement with Capitol. We believe Mr. Sanders is qualified to serve as a director because of his broad business experience, his expertise with audits and financial statements, and experience as a director of public companies.
Thomas E. Siering	55	<b>Thomas E. Siering</b> is our Chief Executive Officer and President and a member of our Board of Directors. Mr. Siering has served as a director and executive officer since we were incorporated in May 2009. Mr. Siering is a Partner of Pine River, which is the parent company of our external manager, PRCM Advisers, and also serves as a director of the Pine River Foundation. Since 2012, Mr. Siering has served as a director of Silver Bay Realty Trust Corp. (NYSE: SBY), a REIT focused on single-family properties for rental income. Prior to joining Pine River in 2006, Mr. Siering was head of the Value Investment Group at EBF & Associates, a private investment firm, from 1989 until 2006. During that period, he was also the manager for Merced Partners, LP, a private investment firm, and Tamarack International Limited, a closed end, non-diversified investment management company. Mr. Siering was named a Partner at EBF & Associates in 1997. Mr. Siering joined EBF & Associates in 1989 as a trader. From 1987 to 1989, Mr. Siering held various positions in the Financial Markets Department at Cargill, Inc. From 1981 until 1987, Mr. Siering was employed in the Domestic Soybean Processing Division at Cargill in both trading and managerial roles. Mr. Siering holds a B.B.A. from the University of Iowa with a major in Finance. Mr. Siering was originally appointed as a director pursuant to contractual rights of Pine River granted in the merger agreement with Capitol. We believe Mr. Siering is qualified to serve as a director because of his investment and trading expertise as well as his knowledge of PRCM Advisers and its affiliate organizations, which helps ensure that adequate resources are devoted to our company by PRCM Advisers.
Brian C. Taylor	50	<b>Brian C. Taylor</b> is the Chairman of our Board of Directors. Mr. Taylor has served as a director of our company since we were incorporate in May 2009. Mr. Taylor is the Chief Executive Officer of Pine River, which he founded in 2002. Prior to Pine River s inception, Mr. Taylor was with EBF & Associates from 1988 to 2002; he was named head of the convertible arbitrage group in 1994 and Partner in 1997. His responsibilities included portfolio management, marketing, product development and trading information systems development. Mr. Taylor received a B.S. from Millikin University in Decatur, Illinois and an M.B.A. from the University of Chicago. Mr. Taylor passed the Illinois Certified Public Accountant Examination in 1986. Mr. Taylor was originally appointed as a director pursuant to contractual rights of Pine River granted in the merger agreement with Capitol. Mr. Taylor currently serves on the board of trustees for the Minneapolis Institute of Arts. He also previously served as a director of Silver Bay Realty Trust Corp. from 2012 to 2014. We believe Mr. Taylor is qualified to serve as a director because of his investment and trading expertise as well as his knowledge of PRCM Advisers and its affiliate organizations. He is able to help ensure that adequate resources are devoted to the company by PRCM Advisers. Mr. Taylor plays a key liaison role between day-to-day management of the company and our independent directors.

Table of Contents

Name	Age	Background Information
Hope B. Woodhouse	58	<p><b>Hope B. Woodhouse</b> is an independent member of our Board of Directors and has served as a director of our company since May 2012. Ms. Woodhouse has over 25 years of experience in the financial services industry at top-ranked, global alternative asset management firms and broker dealers. From 2005 to 2009, she served as Chief Operating Officer and as a member of the management committee for Bridgewater Associates, Inc. Between 2003 and 2005, Ms. Woodhouse was President and Chief Operating Officer of Auspex Group, L.P., and was Chief Operating Officer and a member of the management committee of Soros Fund Management LLC from 2000 to 2003. Prior to that, she held various executive leadership positions, including Treasurer of Funds at Tiger Management L.L.C. from 1998 to 2000 and Managing Director of the Global Finance Department at Salomon Brothers Inc. from 1983 to 1998. She has previously served as a director of Piper Jaffray Companies (NYSE: PJC) and as a member of its audit and compensation committees, Seoul Securities Co. Ltd., Soros Funds Limited and The Bond Market Association. Ms. Woodhouse also serves on the boards of Bottom Line New York and the United Way Foundation of IRC, is a trustee of the Tiger Foundation, and a member of the investment committee at Phillips Academy, Andover, Massachusetts. Ms. Woodhouse received an A.B. degree in Economics from Georgetown University and an M.B.A. from Harvard Business School. We believe Ms. Woodhouse is qualified to serve as a director because of her background in the financial services industry and her experience serving in executive management roles.</p>

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE DIRECTOR NOMINEES NAMED ABOVE.**

Table of Contents

**CORPORATE GOVERNANCE AND BOARD OF DIRECTORS**

Our Board of Directors is committed to maintaining the highest standards of business conduct and corporate governance. As described more fully below, we have adopted a Code of Business Conduct and Ethics applicable to the conduct of our officers and directors, as well as to the employees of our external manager and its affiliates, PRCM Advisers and Pine River. We have also adopted Corporate Governance Guidelines, which, in conjunction with our Charter, Bylaws and our board committee charters, provide the framework for our corporate governance.

You can access our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, the charters for our Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Oversight Committee, and certain other policies under Corporate Governance in the Investors section of our website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com) or by writing to our Investor Relations department at Two Harbors Investment Corp., 590 Madison Avenue, 36th Floor, New York, New York 10022.

**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to our officers and directors and to PRCM Advisers and Pine River's officers, directors and employees when such individuals are acting for us or on our behalf. Among other matters, our Code of Business Conduct and Ethics is designed to detect and deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the Code of Business Conduct and Ethics to appropriate persons identified in the Code; and
- accountability for adherence to the Code of Business Conduct and Ethics.

Any waiver of the Code of Business Conduct and Ethics for our executive officers or directors may be made only by our Board of Directors or a Committee thereof and will be promptly disclosed as required by law or stock exchange regulations. The Code of Business Conduct and Ethics

was adopted by the Board of Directors on October 28, 2009.

### **Director Independence**

NYSE rules require that a majority of a company's board of directors be composed of independent directors, which is defined generally as a person other than an executive officer or employee of the company or its subsidiaries or any other individual having a relationship, which, in the opinion of the company's board of directors, would interfere with the director's exercise of independent judgment in carrying out the responsibilities of a director. Consistent with these considerations, our Board of Directors has affirmatively determined, upon the review and recommendation of our Nominating and Corporate Governance Committee, that the following directors and director nominees each meet the qualifications of an independent director: E. Spencer Abraham, James J. Bender, Stephen G. Kasnet, Jacques R. Rolfo, W. Reid Sanders and Hope B. Woodhouse.

### **Board Leadership Structure**

Our Board of Directors is led by a Chairman who is appointed by the directors. Both independent and non-independent directors are eligible for appointment as the Chairman. The Chairman presides at all meetings of the stockholders and of our Board of Directors. The Chairman performs such other duties and exercises such powers as from time to time shall be prescribed in our Bylaws or by our Board of Directors. Our Board of Directors appointed Mr. Taylor to serve as our Chairman.

Our Corporate Governance Guidelines provide that the independent directors shall appoint a director to serve as the lead independent director. The lead independent director is responsible for coordinating the activities of the

Table of Contents

other independent directors, including scheduling and conducting separate meetings of the independent directors and for such other duties as are assigned from time to time by our Board of Directors. Our independent directors appointed Mr. Kasnet to serve as our lead independent director.

Our Board of Directors consists of a majority of independent directors and exercises a strong, independent oversight function. All of the Committees of our Board of Directors – Audit, Compensation, Nominating and Corporate Governance, and Risk Oversight Committees, are comprised entirely of independent directors. A number of board committee processes and procedures, including regular executive sessions of independent directors and a regular review of the performance of PRCM Advisers, our external manager, provide substantial independent oversight of our management’s performance. Under our Bylaws and Corporate Governance Guidelines, our Board of Directors has the ability to change its structure if it determines that such a change is appropriate and in the best interest of our company. Our Board of Directors believes that these factors provide the appropriate balance between the authority of those who oversee our company and those who manage it on a day-to-day basis.

We currently separate the roles of Chairman and Chief Executive Officer. However, our Chairman and our Chief Executive Officer are both affiliated with PRCM Advisers and Pine River. Our Board of Directors believes that this affiliation benefits our company because these individuals are knowledgeable about our company’s business and they are able to ensure that adequate resources are devoted to our company by PRCM Advisers and Pine River pursuant to our Management Agreement.

**Board Committees**

Our Board of Directors has formed four committees, including our Audit, Compensation, Nominating and Corporate Governance, and Risk Oversight Committees, and has adopted charters for each of these Committees. Each Committee is composed exclusively of directors who meet the independence and other requirements established by the rules and regulations of the SEC and the NYSE listing standards. Additionally, the Compensation Committee is composed exclusively of individuals intended to be, to the extent required by Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, non-employee directors and will, at such times as we are subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, or Section 162(m), qualify as outside directors for purposes of Section 162(m).

The following table summarizes the current membership of each of our Committees.

Director	Audit	Compensation	Nominating & Corporate Governance	Risk Oversight
E. Spencer Abraham		Chair	x	
James J. Bender		x	Chair	
Stephen G. Kasnet	Chair		x	x
Jacques R. Rolfo			x	Chair
W. Reid Sanders	x	x		
Hope B. Woodhouse	x			x

**Audit Committee**

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

Our Audit Committee is responsible for engaging our independent registered public accounting firm, preparing Audit Committee reports, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered public accounting firm, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees, and reviewing the adequacy of our internal accounting controls.

Our Audit Committee is, and will at all times be, composed exclusively of independent directors as defined under the NYSE listing standards and who otherwise meet the NYSE listing standards. Each member of our Audit Committee is also financially literate, in that they are able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

Table of Contents

In addition, as a listed company, we must certify that our Audit Committee has and will continue to have at least one member who is financially sophisticated in that he or she has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background that results in the individual's financial sophistication. Our Board of Directors has determined that each of Mr. Kasnet and Ms. Woodhouse satisfies the definition of financial sophistication and also qualifies as an audit committee financial expert, as defined under rules and regulations of the SEC.

Our Audit Committee's purpose and responsibilities are more fully set forth in its charter.

*Compensation Committee*

The principal functions of our Compensation Committee are to:

- evaluate the performance of our executive officers;
  
- in consultation with senior management, establish the company's general compensation philosophy and review the compensation philosophy of the company's external manager;
  
- evaluate the performance of our external manager, PRCM Advisers;
  
- review the compensation and fees payable to PRCM Advisers under the Management Agreement dated October 28, 2009, as amended (the Management Agreement );
  
- to review the compensation and fees payable to any affiliates of PRCM Advisers or any other related party;
  
- prepare Compensation Committee reports;
  
- make recommendations to our Board of Directors with respect to our company's incentive compensation plans and equity-based plans; and

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

- administer the issuance of any common stock or other equity awards issued to employees of PRCM Advisers or Pine River, who provide services to us.

Our Compensation Committee also reviews and makes recommendations to our Board of Directors regarding the compensation of our company's independent directors. In reviewing and making recommendations on independent director compensation, our Compensation Committee considers, among other things, the following policies and principles:

- the compensation that is paid to directors of other companies that are comparable to us;
- the amount of time it is likely directors will be required to devote to preparing for and attending meetings of our Board of Directors and the committees on which they serve;
- the success of our company;
- whether a director is a lead independent director or chairman of one of the committees of our Board of Directors and the time commitment related thereto;
- if a committee on which a director serves undertakes a special assignment, the importance of that special assignment to our company and its stockholders; and
- the risks involved in serving as a director on our Board of Directors or a member of its committees.

Other than our Chief Executive Officer, who also serves as a director, none of our executive officers are involved in determining independent director compensation levels, although our company's management may support the Compensation Committee with certain information, data and other resources in connection with its compensation recommendations to our Board of Directors.

Our Compensation Committee may delegate all or a portion of its duties and responsibilities to a subcommittee of the Compensation Committee. Our Compensation Committee's purpose and responsibilities are more fully set forth in the Compensation Committee's charter.



Table of Contents

*Nominating and Corporate Governance Committee*

Our Nominating and Corporate Governance Committee is responsible for seeking, considering and recommending to our Board of Directors qualified candidates for election as directors and approves and recommends to the full Board of Directors the appointment of each of our executive officers. It also periodically prepares and submits to our Board of Directors for adoption its selection criteria for director nominees. It reviews and makes recommendations on matters involving the general operation of our Board of Directors and our corporate governance, and annually recommends to our Board of Directors nominees for each Committee of our Board of Directors. In addition, the Nominating and Corporate Governance Committee annually facilitates the assessment of our Board of Directors' performance and report thereon to our Board of Directors.

Our Nominating and Corporate Governance Committee considers the following factors in making its recommendations to the Board of Directors: background experience, skills, expertise, accessibility and availability to serve effectively on the Board of Directors. The Nominating and Corporate Governance Committee also conducts inquiries into the background and qualifications of potential candidates.

Our Nominating and Corporate Governance Committee's purpose and responsibilities are more fully set forth in its charter.

*Risk Oversight Committee*

The purpose of our Risk Oversight Committee is to assist our Board of Directors in fulfilling its responsibility to oversee the risks of our company's investment activities. This Committee also assists our Audit Committee in reviewing the guidelines and policies that govern the process by which risk assessment and risk management is addressed by the company through its senior management team, Chief Risk Officer and Risk Management Committee.

Our company's senior management team, Chief Risk Officer and Risk Management Committee are responsible for (i) identifying the material risks to the company and its operations; (ii) creating and implementing appropriate risk management policies, procedures and practices; (iii) integrating the consideration of risk and risk management into the decision-making process of the company; and (iv) measuring risk and monitoring risk levels.

Our Risk Oversight Committee's purpose and responsibilities are more fully set forth in its charter.

**Role of Our Board of Directors in Risk Oversight**

Our Board of Directors is responsible for oversight of our company's risk management processes and for understanding the overall risk profile of our company. Accordingly, our Board of Directors relies upon the Audit Committee and the Risk Oversight Committee to oversee the risks

related to our company. The Risk Oversight Committee assists the Board of Directors in fulfilling its responsibility to oversee the risks of our company's investment activities. The Risk Oversight Committee also assists the Audit Committee in reviewing the guidelines and policies that govern the process by which risk assessment and risk management is addressed by the company through its senior management team, Chief Risk Officer and Risk Management Committee.

Pursuant to our Risk Management Policy Manual, the Chief Risk Officer is required to report to our Board of Directors on an annual basis, or more frequently as the circumstances may require or the Board of Directors may request, regarding: (i) our company's risk management practices; (ii) our company's compliance with the Risk Management Policy Manual; (iii) breaches and exceptions to the Risk Management Policy Manual; (iv) the membership and composition of the Risk Management Committee; and (v) changes or proposed changes to the Risk Management Policy Manual.

### **Board Meetings**

Our Board of Directors held ten meetings and took action by unanimous written consent one time during 2014. During certain meetings of our Board of Directors, the independent directors also met separately in executive sessions without management present to discuss various matters, including our performance and the performance of PRCM Advisers. During 2014, our Audit Committee held eight meetings and took action by unanimous written consent one time; our Compensation Committee held eight meetings and took action by unanimous written consent one time; our Nominating and Corporate Governance Committee held three meetings; and our Risk Oversight

Table of Contents

Committee held two meetings. Each of our directors attended at least 75% of the aggregate total number of meetings held by the Board and all committees on which he or she served during 2014. Although we do not have a policy on director attendance at our annual meetings, directors are encouraged to attend the Annual Meeting. Each of our then-current directors attended our annual meeting of stockholders held in May 2014.

**Director Nomination Process**

Our Corporate Governance Guidelines provide the following minimum qualifications for directors in order to be suitable for a position on our Board of Directors:

- possession of the highest personal and professional ethics, integrity and values;
  
- the ability to exercise good business judgment and be committed to representing the long-term interests of the company and its stockholders;
  
- having an inquisitive and objective perspective, practical wisdom and mature judgment; and
  
- willingness to devote the necessary time and effort to board of director duties, including preparing for and attending meetings of the Board of Directors and its Committees.

In considering candidates for nomination as a director, the Nominating and Corporate Governance Committee generally assembles all information regarding a candidate's background and qualifications, evaluates a candidate's mix of skills and qualifications and determines the contribution that the candidate could be expected to make to the overall functioning of our Board of Directors. Although we do not have a formal policy on diversity, our corporate governance guidelines provide that our company shall endeavor to have a Board of Directors representing a diverse education and experience that provides knowledge of business, financial, governmental or legal matters that are relevant to our business and to our status as a publicly owned company. With respect to the re-nomination of current directors, the Committee considers the foregoing factors as well as past participation in and contributions to the activities of our Board of Directors.

Our Nominating and Corporate Governance Committee will consider candidates recommended for nomination to our Board of Directors by our stockholders. Stockholder recommendations for nominees to the Board of Directors should be submitted in writing to our Secretary. The manner in which such Committee evaluates candidates recommended by stockholders is generally the same as any other candidate. However, the Committee will also seek and consider information concerning any relationship between a stockholder recommending a candidate and the candidate to determine if the candidate can represent the interests of all of the stockholders. The Committee will not evaluate a candidate recommended by a stockholder unless the stockholder's proposal provides a certification that the potential candidate will serve as a director if elected.

**Majority Voting for Directors and Director Resignation Policy**

Our Bylaws provide that a director nominee will be elected by receiving the affirmative vote of a majority of the votes cast on the election of such nominee on a per nominee basis in an uncontested election (which occurs when the number of director nominees is the same as the number of directors to be elected). If a director nominee who is an incumbent director receives a greater number of votes against than votes for his or her election and with respect to whom no successor has been elected, such incumbent director shall promptly tender his or her offer to resign to our Board of Directors for its consideration following certification of the stockholder vote. Within 90 days following certification of the stockholder vote, our Nominating and Corporate Governance Committee shall consider the tendered resignation offer and make a recommendation to our Board of Directors whether or not to accept such offer, and our Board of Directors shall act on our Nominating and Corporate Governance Committee's recommendation. In determining whether to accept the resignation, our Nominating and Corporate Governance Committee and Board of Directors may consider any factors they deem relevant in deciding whether to accept a director's resignation, including, among other things, whether accepting the resignation of such director would cause our company to fail to meet any applicable stock exchange or SEC rules or requirements. Thereafter, our Board of Directors shall promptly and publicly disclose its decision-making process regarding whether to accept the director's resignation offer or the reasons for rejecting the resignation offer, if applicable, on a Form 8-K furnished to the SEC. Any director who tenders his or her resignation will not participate in our Nominating and Corporate Governance Committee's recommendation or our Board of Directors' action regarding whether to accept the resignation offer. If our Board of Directors does not accept the director's resignation, such director will continue to serve until the next

Table of Contents

annual meeting of stockholders and until such director's successor is duly elected and qualified or until the director's earlier resignation or removal.

In a contested election, the director nominees who receive a plurality of votes cast will be elected as directors. Under the plurality standard, the number of persons equal to the number of vacancies to be filled who receive more votes than other nominees are elected to our Board of Directors, regardless of whether they receive a majority of votes cast.

**Communications with our Board of Directors**

We provide the opportunity for our stockholders and all other interested parties to communicate with members of our Board of Directors. Stockholders and all other interested parties may communicate with the independent Board members or the chairperson of any of the committees of the Board by email or regular mail. All communications should be sent to the company's Secretary, Rebecca B. Sandberg, by email to [legal@twoharborsinvestment.com](mailto:legal@twoharborsinvestment.com) or by regular mail to the attention of the Independent Directors, the Chair of the Audit Committee, the Chair of the Compensation Committee, the Chair of the Nominating and Corporate Governance Committee, or the Chair of the Risk Oversight Committee, as the case may be, in each instance in care of the Secretary at the company's office at 590 Madison Avenue, 36th Floor, New York, New York 10022.

Our Secretary will review each communication received in accordance with this process to determine whether the communication requires immediate action. The Secretary will forward all appropriate communications received, or a summary of such communications, to the appropriate member(s) of our Board of Directors. However, we reserve the right to disregard any communication that we determine is unduly hostile, threatening or illegal, or does not reasonably relate to us or our business, or is similarly inappropriate. The Secretary has the authority to disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

Stockholder proposals must be made in accordance with the procedures set forth in our current Bylaws or the procedures set forth in Rule 14a-8 of the Exchange Act and not the procedures set forth in the preceding paragraph or the procedures set forth under *Corporate Governance and Board of Directors - Director Nomination Process* above. Nominations for the Board of Directors proposed may only be made in accordance with the procedures set forth in our Bylaws. Certain matters set forth in our Bylaws for stockholder proposals, including nominations for our Board of Directors, as well as certain matters set forth in Rule 14a-8 for stockholders proposals are described in *Other Matters - Stockholder Proposals and Director Nominations for 2016 Annual Meeting* in this proxy statement.

**Director Compensation**

We compensate the independent members of our Board of Directors for their service. It is our belief that director compensation should:

- align the interests of our directors and our stockholders;

- ensure our company can attract and retain outstanding director candidates who meet the selection criteria set forth in our Corporate Governance Guidelines and Nominating and Corporate Governance Committee Charter; and
- reflect the substantial time commitment of our directors necessary to oversee the company's business.

Generally, it has been our practice to compensate our independent directors with a mix of cash and equity-based compensation. We do not pay any compensation to the non-independent directors for their service on our Board of Directors. However, all members of our Board of Directors are reimbursed for their costs and expenses of serving on the Board of Directors, including costs and expenses of attending all meetings of our Board of Directors and its Committees. As discussed above, the Compensation Committee Charter provides that the Compensation Committee has the primary responsibility for reviewing and recommending any changes to director compensation. Our Board of Directors reviews the Compensation Committee's recommendations and determines the amount of director compensation.

Table of Contents***Independent Director Compensation for 2014***

For the one-year term commencing immediately following the 2014 annual meeting of stockholders and ending at the Annual Meeting, each of our independent directors, which includes the individuals listed below, earned the following fees for their service:

- each independent director received an annual fee of \$180,000;
- the Audit Committee Chair received an additional fee of \$15,000; and
- the lead independent director received an additional fee of \$35,000.

All annual fees noted above are paid half in cash and half in shares of our common stock. The cash portion of the fee is paid in four equal quarterly installments over the course of the term. The common stock portion of the annual director fee is granted under our Restated 2009 Equity Incentive Plan (the Equity Incentive Plan ), on the first business day following the annual meeting of stockholders at which such director is elected. The number of shares subject to issuance is determined using the fair market value of our common stock on the grant date, which is based on the closing market price on the NYSE on the grant date. Restricted common stock granted to our independent directors prior to the 2012-2013 term vested in three equal annual installments commencing with the first anniversary of the date of grant, so long as such director was serving as a member of our Board of Directors on the vesting date. Starting with the 2012-2013 term, restricted common stock granted to the independent directors under our Equity Incentive Plan as part of the director fees noted above vest immediately on the grant date.

The following table shows the compensation of our independent directors for services in all capacities to us in the year ended December 31, 2014:

Name	Fees			Total
	Earned or			
	Paid in Cash(1)	Stock Awards(2)	All Other Compensation(3)	
E. Spencer Abraham	\$ 72,002(4)	\$ 62,994	\$ 0	\$ 134,996
James J. Bender	\$ 85,000	\$ 89,996	\$ 0	\$ 174,996
Stephen G. Kasnet	\$ 107,500	\$ 114,998	\$ 504	\$ 223,001
Jacques R. Rolfo	\$ 75,685	\$ 89,996	\$ 0	\$ 165,681
W. Reid Sanders	\$ 85,000	\$ 89,996	\$ 403	\$ 175,399
Hope B. Woodhouse	\$ 85,000	\$ 89,996	\$ 0	\$ 174,996

(1) This column sets forth the cash fees paid during the year ended December 31, 2014.

(2) The values in this column were computed in accordance with FASB ASC Topic 718 such that the values in this column are based on the closing market price of our common stock on the NYSE on the grant date of such stock award.

(3) All other compensation for 2014 represents dividends and distributions on unvested shares of restricted common stock. As of December 31, 2014, all stock awards previously granted to directors were fully vested.

(4) Includes \$45,000 in annual fees paid in cash as well as the value of shares surrendered for the purposes of satisfying tax liabilities in connection with the granting of stock awards.



Table of Contents

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

**Compensation Committee Interlocks and Insider Participation**

None of the members of our Compensation Committee or Nominating and Corporate Governance Committee is or has been employed by us. None of our executive officers currently serves as a member of the board of directors or compensation committee of another entity that has one or more executive officers serving on our Board of Directors or our Compensation or Nominating and Corporate Governance Committees, except that in 2014 each of Messrs. Taylor, Siering and Roth participated in making compensation decisions for officers and employees of Pine River, PRCM Advisers and their affiliates.

**Transactions with Related Persons**

***Management Agreement with PRCM Advisers LLC***

We are party to a Management Agreement with PRCM Advisers, pursuant to which PRCM Advisers provides the day-to-day management of our business, including providing us with our executive officers and all other personnel necessary to support our operations. The Management Agreement requires PRCM Advisers to manage our business in conformity with the policies and the investment guidelines that are approved and monitored by our Board of Directors. The Management Agreement had an initial three-year term, which expired on October 28, 2012, and renews annually for successive one-year terms unless earlier terminated by either us or PRCM Advisers. PRCM Advisers is entitled to receive a termination fee from us under certain circumstances. In exchange for its services, we are obligated to pay PRCM Advisers a management fee as well as reimburse it for certain expenses incurred by it and its affiliates in rendering management services to us. Mr. Taylor, our Chairman, is Chief Executive Officer and a Partner of Pine River. Mr. Siering, our Chief Executive Officer, and Mr. Roth, our Chief Investment Officer, are each partners of Pine River. Mr. Farrell, our Chief Financial Officer, and Ms. Sandberg, our General Counsel and Secretary, are each employees of Pine River. The Management Agreement between us and PRCM Advisers was negotiated between related parties in connection with our merger with Capitol, and the terms, including fees and other amounts payable, may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

PRCM Advisers entered into a shared facilities and services agreement with Pine River, its parent company, to provide PRCM Advisers with access to personnel, office space, equipment, credit analysis and risk management expertise and processes, information technology and other resources in order for PRCM Advisers to fulfill its obligations under the Management Agreement. The Management Agreement and PRCM Advisers' shared facilities and services agreement with Pine River are intended to provide us with access to Pine River's personnel and its experience in capital markets, credit analysis, debt structuring and risk and asset management, as well as assistance with corporate operations, legal and compliance functions and governance.

We incurred charges of \$64.3 million for year ended December 31, 2014 related to the Management Agreement, of which \$48.8 million was for the base management fee and \$15.5 million represented expense reimbursement for general and administrative expenses incurred by the company in the normal course of its operations and certain compensation expenses incurred by PRCM Advisers under the Management Agreement as described in greater detail below.

The base management fee paid to PRCM Advisers is 1.5% of our stockholders' equity per annum, calculated and payable quarterly in arrears. For purposes of calculating the management fee, our stockholders' equity means the sum of the net proceeds from all issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus our retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount that we have paid for repurchases of our common stock since inception, and excluding any unrealized gains, losses or other items that do not affect realized net income (regardless of whether such items are included in other comprehensive income or loss, or in net income). This amount will be adjusted to exclude one-time events pursuant to changes in accounting principles generally accepted in the United States of America, or GAAP, and certain non-cash items after discussions between PRCM Advisers and our independent directors and approval by a majority of our independent directors.

As noted above, we reimburse PRCM Advisers for (i) the compensation paid by Pine River to its employees serving as our Chief Financial Officer and General Counsel and other employees of Pine River who are dedicated to

Table of Contents

our business, including Pine River employees providing us in-house legal, tax, accounting, consulting, auditing, administrative, information technology, valuation, computer programming and development services; and (ii) any amounts for employees of Pine River's affiliates arising under the shared facilities and services agreement between PRCM Advisers and Pine River.

**Related Person Transaction Policies**

Our Audit Committee charter authorizes our Audit Committee to review, approve and oversee any related party transactions involving our company and also authorizes such Committee to develop policies and procedures for its approval of related party transactions.

Our Management Agreement places restrictions on PRCM Advisers from entering into transactions with its related parties. These limitations include prohibitions on entering into transactions with affiliates of PRCM Advisers that are not approved by a majority of our independent directors in certain circumstances and prohibitions on investing in securities structured by affiliates of PRCM Advisers unless the investment is consistent with our investment guidelines, is approved by at least one independent director, and is made in accordance with applicable law.

*[Remainder of page left intentionally blank]*

Table of Contents**STOCK OWNERSHIP****Director Stock Ownership Guidelines**

Our directors are encouraged to own shares of our common stock in order to better align their personal interests with the interests of our stockholders. In furtherance of this objective, our directors are not permitted to sell shares of our common stock if, upon completion of such sale, the aggregate number of shares of our common stock owned by such director would have a market value of less than \$200,000.

**Beneficial Ownership of Directors, Director Nominees and Named Executive Officers**

Our common stock is listed on the NYSE under the symbol TWO. As of March 19, 2015, we had 342 registered holders and approximately 102,471 beneficial owners of our common stock. The following table sets forth information regarding the beneficial ownership of our common stock as of March 19, 2015 (unless otherwise indicated) by each of our executive officers, current directors and director nominees and all of such individuals as a group.

Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act. A person is deemed to be the beneficial owner of any shares of common stock if that person has or shares voting power or investment power with respect to those shares or has the right to acquire beneficial ownership at any time within 60 days of the date of the table. Voting power is the power to vote or direct the voting of shares and investment power is the power to dispose or direct the disposition of shares.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	Percent of Class(2)
<b><i>Directors and Director Nominees:</i></b>		
E. Spencer Abraham	6,110	*
James J. Bender	25,650	*
Mark D. Ein	10,000	*
Stephen G. Kasnet	87,826	*
Jacques R. Rolfo	29,426	*
William Roth(3)	550,334	*
W. Reid Sanders	84,890	*
Thomas E. Siering(4)	859,833	*
Brian C. Taylor	19,865	*
Hope B. Woodhouse	21,808	*
<b><i>Officers:</i></b>		
Brad Farrell(5)	167,012	*
Rebecca B. Sandberg(6)	70,630	*
All directors, director nominees and executive officers as a group (12 individuals)	1,933,384	*

\* Represents ownership of less than 1.0% of our outstanding common stock as of March 19, 2015.

(1) Unless otherwise indicated, the business address of each of the individuals is 590 Madison Avenue, 36th Floor, New York, New York 10022.

(2) Based on 366,564,335 shares of common stock outstanding as of March 19, 2015. Our directors and named executive officers are prohibited from both hedging company stock and from pledging company stock in any manner, whether as collateral for a loan, in a margin account held at a broker, or otherwise.

Table of Contents

- (3) Includes 346,023 shares of restricted common stock held by Mr. Roth.
- (4) Includes 346,023 shares of restricted common stock held by Mr. Siering.
- (5) Includes 115,043 shares of restricted common stock held by Mr. Farrell.
- (6) Includes 52,844 shares of restricted common stock held by Ms. Sandberg.

**Beneficial Owners of More than Five Percent of Our Common Stock**

Based on filings made under Section 13(g) of the Exchange Act, the persons known by us to be beneficial owners of more than 5% of our common stock were as follows:

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class(1)
BlackRock, Inc. 55 East 52nd Street New York, NY 10022	22,065,005(2)	6.0%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	21,054,842(3)	5.75%

(1) Based on 366,395,920 shares of common stock outstanding as of December 31, 2014.

(2) This information is based on a Schedule 13G/A filed with the SEC on February 9, 2015, by BlackRock, Inc. BlackRock reported sole voting power with respect to 20,894,919 shares and sole dispositive power with respect to all shares reported in the table.

(3) This information is based on a Schedule 13G/A filed with the SEC on February 10, 2015, by The Vanguard Group. Vanguard reported that it has sole voting power with respect to 243,019 shares, sole dispositive power with respect to 20,843,123 shares, and shared dispositive power with respect to 211,719 shares.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act and the disclosure requirements of Item 405 of SEC Regulation S-K require that our directors and executive officers, and any persons holding more than 10% of our common stock ( 10% holders ), file reports of ownership and changes in ownership with the SEC. Officers, directors and 10% holders are required by Item 405 of Regulation S-K to furnish us with copies of all Section 16(a) forms that they file. To our knowledge, based solely on a review of the copies of such reports furnished to us or written representations from reporting persons that all reportable transactions were reported, we believe that during the fiscal year ended December 31, 2014, all reports required to be filed pursuant to Section 16(a) by such executive officers, directors and 10% holders were timely filed.

Table of Contents**EXECUTIVE OFFICERS****Executive Officers**

Our Board of Directors generally appoints our executive officers annually following our annual meeting of stockholders to serve until the meeting of the Board of Directors following the next annual meeting of stockholders. Set forth below is certain information about each of our named executive officers.

<b>Name</b>	<b>Age</b>	<b>Background Information</b>
Thomas E. Siering	55	<b>Thomas E. Siering</b> is our President and Chief Executive Officer. Biographical information for Mr. Siering is provided above under <i>Proposal 1: Election of Directors</i> <i>Director Nominees</i> .
William Roth	57	<b>William Roth</b> is our Chief Investment Officer. Biographical information for Mr. Roth is provided above under <i>Proposal 1: Election of Directors</i> <i>Director Nominees</i> .
Brad Farrell	40	<b>Brad Farrell</b> is our Chief Financial Officer and Treasurer. Mr. Farrell has served as our Chief Financial Officer since January 2012. Mr. Farrell has been an employee of Pine River since 2009 and served as our Controller prior to his appointment as our Chief Financial Officer. Prior to joining Pine River, he was Vice President and Executive Director of External Reporting for GMAC ResCap, a diversified real estate company, from 2007 to 2009. From 2002 to 2007, Mr. Farrell held various positions in finance and accounting with XL Capital Ltd., a public global insurance underwriter, including the establishment of finance and accounting processes in its London based insurance segment. Prior to 2002, he was employed with KPMG LLP where he gained experience managing U.S. GAAP implementation and SEC compliance engagements for foreign filers in the firm's London practice. Mr. Farrell is a Certified Public Accountant (inactive), and graduated with a B.S.B.A. from Drake University in Des Moines, Iowa.
Rebecca B. Sandberg	43	<b>Rebecca B. Sandberg</b> is our General Counsel and Secretary. Ms. Sandberg has served as our General Counsel since March 2013. Ms. Sandberg has been an employee of Pine River since 2010 and previously served as our Deputy General Counsel and Secretary from May 2012 until March 2013. From 2010 to May 2012, she served as our Senior Counsel. Prior to joining Pine River, Ms. Sandberg was in private practice where she advised clients primarily in the areas of securities laws, mergers and acquisitions, capital markets transactions, corporate governance and general corporate law. From 2007 to 2010, Ms. Sandberg was a Senior Associate at Stoel Rives LLP and from 2006 to 2007 she was a Senior Associate at Fulbright & Jaworski LLP. Prior to that, Ms. Sandberg was an Associate at Lindquist & Vennum PLLP. She received a B.A. from the University of Minnesota and a J.D. from William Mitchell College of Law.



Table of Contents

**Executive Compensation Overview**

As described more fully above under the section titled *Certain Relationships and Related Party Transactions Transactions with Related Persons Management Agreement with PRCM Advisers LLC*, we are externally managed by PRCM Advisers under the terms of a Management Agreement, pursuant to which PRCM Advisers provides us with all of the personnel required to manage and operate our business, including our named executive officers, each of whom is either an employee or partner of Pine River, which is the parent company of PRCM Advisers. Accordingly, as discussed below under *Compensation Discussion and Analysis*, the cash compensation received by our named executive officers is paid by Pine River. Any equity incentive compensation awarded to our named executive officers is the responsibility of our Compensation Committee and is determined by our Compensation Committee in accordance with our Equity Incentive Plan.

**Compensation Discussion and Analysis**

This compensation discussion and analysis describes our compensation objectives and policies in relation to compensation received by our named executive officers during the fiscal year ended December 31, 2014.

***Compensation Program***

As an externally managed company with no employees of our own, we have a hybrid approach to the compensation program for our named executive officers, each of whom is an employee or partner of Pine River: Pine River is responsible for the cash compensation paid to our named executive officers, and our Compensation Committee is responsible for any equity incentive compensation awarded to our named executive officers.

***Cash Compensation***

Our named executive officers receive cash compensation from Pine River, which may include salaries and performance-based bonuses. Pine River is solely responsible for making decisions relating to the compensation of our named executive officers based on such factors as Pine River determines is appropriate. However, Pine River consults with our Compensation Committee concerning the cash compensation that Pine River proposes to pay its employees serving as our Chief Financial Officer and General Counsel, and takes into consideration the interests of the Compensation Committee in ensuring that Pine River's compensation philosophy is consistent with our objectives. The source of cash compensation paid by Pine River to our named executive officers is derived from the base management fee we pay to PRCM Advisers under the Management Agreement (through distributions of PRCM Advisers' income to Pine River) and from expenses we reimburse to PRCM Advisers, including for costs incurred by PRCM Advisers and Pine River relating to the cash compensation Pine River pays to its employees serving as our Chief Financial Officer and General Counsel and certain other employees of Pine River who are dedicated to our business. See *Certain Relationships and Related Party Transactions Transactions with Related Persons Management Agreement with PRCM Advisers LLC* for further discussion of the terms of the Management Agreement, including the base management fee payable to PRCM Advisers thereunder and our expense reimbursement obligations to PRCM Advisers.

*Equity Incentive Compensation*

In 2013, our Compensation Committee determined to add an equity incentive component to our compensation program in the form of grants of restricted common stock awards to our named executive officers. Prior to that time, we had not granted any form of equity incentive awards to our named executive officers. Our Compensation Committee, which consists solely of independent directors, is responsible for overseeing any such equity awards granted pursuant to our Equity Incentive Plan. Our Compensation Committee approves and recommends all equity awards granted pursuant to our Equity Incentive Plan, which awards are then ratified by our Board of Directors.

The equity compensation paid to our named executive officers is designed to drive and reward corporate performance annually and over the long term. We periodically review our equity compensation program to ensure it reflects strong governance practices and the best interests of our stockholders, while striving to meet the following core objectives:

Table of Contents

- *Pay for Performance* Our equity compensation program is designed to generate and reward superior individual and collective performance by ensuring that equity compensation is commensurate with the level of achieved company results.
- *Sustain and Strengthen Our Franchise* We are a specialized company operating in a highly competitive industry, and our continued success depends on retaining our talented executive team. Our equity compensation program is designed to attract and retain highly qualified executives whose abilities and expertise are critical to our long-term success and our competitive advantage. Continued success over the long term will create opportunities for our named executive officers through their stock ownership by enabling them to participate in any future appreciation of our stock and receive dividends.
- *Align Risk and Reward* We are committed to creating an environment that encourages increased profitability for our company without undue risk taking. We strive to focus our executive officers' decisions on goals that are consistent with our overall business strategy without threatening the long-term viability of our company.
- *Align Interests with Stockholders* We are committed to using our equity compensation program to increase executive stock ownership over the long term and focus our named executive officers' attention on creating value for our stockholders. We believe that equity ownership directly aligns the interests of our named executive officers with those of our stockholders and encourages our named executive officers to focus on creating long-term stockholder value. Accordingly, our named executive officers are prohibited from hedging company stock.

Restricted stock awards that are granted to our named executive officers under our Equity Incentive Plan provide for ratable vesting on an annual basis over a three-year period, with accelerated vesting occurring under certain circumstances, as described in greater detail below under *Potential Payments Upon Termination or Change in Control*. Under certain circumstances, our named executive officers may be required to forfeit their respective restricted stock awards pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), applicable stock exchange listing rules, or any clawback or recoupment policy adopted by our Board of Directors or Compensation Committee. The restricted stock awards are treated as issued and outstanding as of the grant date and each named executive officer is entitled to vote the shares and receive dividends as declared and paid thereon; however, the restricted stock remains subject to forfeiture if the executive officer does not comply with the terms of the award agreement, including where the executive officer voluntarily terminates his or her employment with our external manager prior to any applicable vesting dates.

On February 5, 2014, our Compensation Committee and Board of Directors approved the grant of an aggregate amount of 660,111 shares of restricted common stock (the "2014 Restricted Stock Awards") under our Equity Incentive Plan to our named executive officers, which awards are set forth in greater detail below under *Grants of Plan-Based Awards*. The 2014 Restricted Stock Awards were granted to our named executive officers in recognition of our overall development and the financial performance of the business during the fiscal year ended December 31, 2013. Consistent with our compensation philosophy and objectives discussed above, our Compensation Committee considered a number of key company results and developments in determining whether it was appropriate to grant awards for the fiscal year ended December 31, 2013, including that the company:

- produced full year return on book value of 10.4% with dividends of \$2.18 per share, despite a volatile interest rate and mortgage spread environment;

- delivered comprehensive income of \$327.3 million, a return on average equity of 8.5%, or \$0.93 per diluted weighted average common share;
- delivered a total stockholder return of 0.6% for the year ended December 31, 2013, as compared to a stockholder return of -12.1% for our sector during the same period as measured by the Pine River Mortgage REIT Index;(1)

---

(1) The Pine River Mortgage REIT Index tracks publicly traded REITs whose principal business consists of originating, servicing or investing in residential mortgage interests. The index uses a modified market capitalization weighted methodology, and components are reviewed quarterly for eligibility. Source: Bloomberg.

Table of Contents

- advanced our strategic initiatives pertaining to our mortgage servicing rights ( MSR ) business, including the completion of a substantial bulk purchase of MSR and the entry into a two-year flow sale MSR agreement;
- advanced our strategic initiatives pertaining to our mortgage loan conduit and securitization platform, including the significant expansion of our network of mortgage loan seller partners and the completion of our first two securitization transactions, one of which was the first using our own depositor, Agate Bay Mortgage Trust; and
- gained admission for one of our wholly owned subsidiaries to the Federal Home Loan Bank Des Moines, further diversifying our company s financing counterparties.

When determining the amount of individual equity awards granted to our named executive officers, our Compensation Committee took into account all of the factors described above, as well as the individual s role and responsibility in attaining the metrics listed above, the individual s expected and actual job performance, the individual s ability to influence the outcome of our company s future performance, and market conditions. Our Compensation Committee considered all of these factors in exercising its discretion to determine the equity awards granted to each named executive officer for his or her performance during 2013.

We have not in the past made equity awards on a fixed schedule to our named executive officers, and our Compensation Committee s decision whether to approve any equity awards in future periods will depend on a number of factors, including our company s performance, market trends and practices, expense implications, tax efficiencies or other considerations in the Compensation Committee s sole discretion.

***Role of Compensation Consultant in Compensation Decisions***

Our Compensation Committee engaged Frederic W. Cook & Co., Inc., or FWC, as its independent compensation consultant. Our Compensation Committee considers advice and recommendations received from FWC regarding compensation matters, including decisions made with respect to director compensation and executive equity compensation. FWC does not provide services to our company other than the advice it provides to our Compensation Committee, and FWC has advised our Compensation Committee that the fees and direct expenses received from us during 2014 were immaterial as a percentage of FWC s income for the period. FWC also has advised us that neither it nor, to its knowledge, any member of its consulting team serving our Compensation Committee owns any shares of our common stock. After considering the foregoing, as well as FWC s conflict of interest policies and procedures and the lack of known business and personal relationships between FWC, its team members servicing our Compensation Committee and its members, and our named executive officers, our Compensation Committee concluded that FWC s work for it does not raise any conflict of interest concerns.

***Role of Named Executive Officers in Equity-Based Compensation Decisions***

Our Compensation Committee makes all equity-based compensation decisions related to our named executive officers. Our Compensation Committee receives input from Mr. Siering, our Chief Executive Officer, regarding the equity compensation and performance of named

executive officers other than himself, including recommendations as to the equity compensation levels that he believes are commensurate with an individual's job performance, skills, experience, qualifications, criticality to our company, as well as with our compensation philosophy, external market data and considerations of internal equity. Mr. Siering regularly attends meetings of our Compensation Committee, except when our Compensation Committee is meeting in executive session or when his own equity compensation arrangements are being considered. Our Compensation Committee communicates its views and decisions regarding equity compensation arrangements for our named executive officers to Mr. Siering, whom is generally responsible for implementing such arrangements.

*Tax Treatment of Compensation*

Section 162(m) disallows a federal income tax deduction for any publicly held corporation with respect to individual compensation exceeding \$1 million in any taxable year paid to a corporation's chief executive officer and each of the corporation's three other most highly compensated executive officers, other than its chief financial officer, unless the compensation is performance-based as defined under Section 162(m). Because we do not have any employees, we do not believe that Section 162(m) is applicable to us and, therefore, we do not currently

Table of Contents

consider the effects of Section 162(m) on the compensation paid to our named executive officers by our external manager or the degree to which it would be advisable to structure the amount and form of equity compensation to our named executive officers so as to maximize our ability to deduct it. If we were to determine that Section 162(m) was applicable to us, our Compensation Committee retains the discretion to provide compensation in an amount or form that would not be deductible under Section 162(m) in circumstances under which it believes the exercise of such discretion would be in the best interest of our company.

***Compensation Committee Consideration of Stockholder Votes on Executive Compensation***

At our 2014, 2013 and 2012 annual meetings of stockholders, our advisory vote on executive compensation received for votes representing approximately 97%, 97% and 98% of votes cast. In determining the equity compensation paid to our named executive officers, our Compensation Committee generally considered the results of such votes. While continuing to look for ways to improve our executive compensation program, our Compensation Committee noted the significant support received in the previous advisory vote on executive compensation and considered it an endorsement of its handling of executive compensation matters. In an effort to continually align executive compensation with the interests of our stockholders, our Compensation Committee determined it was important to add an equity incentive component to our compensation program. We currently plan to hold an advisory vote on executive compensation each year.

***Compensation Risk Assessment***

We believe that our compensation policies and practices are aligned with the interests of our stockholders and do not create risks that are reasonably likely to have a material adverse effect on our company. We do not believe that our fee arrangement with PRCM Advisers or the equity awards granted by us to our named executive officers encourages inappropriate risk taking.

As noted above, we are externally managed by PRCM Advisers pursuant to the terms of the Management Agreement and all decisions regarding cash compensation, including salaries and performance based bonuses, paid to our named executive officers are made by Pine River. The source of such cash compensation paid by Pine River to our named executive officers is derived from the base management fee we pay to PRCM Advisers under the Management Agreement (through distributions of PRCM Advisers' income to Pine River) and from expenses we reimburse to PRCM Advisers, including for costs incurred by PRCM Advisers and Pine River relating to the cash compensation Pine River pays to its employees serving as our Chief Financial Officer and General Counsel and certain other employees of Pine River who are dedicated to our business. The base management fee under the Management Agreement is calculated based on a fixed percentage of stockholder equity and is payable quarterly. Calculation of the base management fee is not primarily dependent upon our financial performance or the performance of our named executive officers, thus the base management fee does not create an incentive for our management to take excessive or unnecessary risks. Specifically, the use of stockholders' equity to calculate the base management fee does not result in leveraged pay-out curves, steep pay-out cliffs, or set unreasonable goals and thresholds, each of which can promote excessive and unnecessary risks. Our independent directors review PRCM Advisers' performance annually and are provided with the base management fees and expenses each quarter, providing a check upon any improper effort by our management to increase compensation payments indirectly via the pass-through of costs. We will continue to have certain costs allocated to us by PRCM Advisers for compensation, data services and proprietary technology, but most direct expenses we incur with third-party vendors are paid directly by us. The base management fee itself cannot be increased or revised without the approval of our independent directors. The Management Agreement provides for annual renewals and for termination for cause. Although termination under the foregoing circumstances may require the payment of a significant termination fee, we believe it is still a deterrent against excessive and unnecessary risk taking. See *Certain Relationships and Related Party Transactions Transactions with Related Persons Management Agreement with PRCM Advisers LLC* for further discussion of the terms of the Management Agreement, including the base management fee payable to PRCM Advisers thereunder and our expense reimbursement obligation to PRCM Advisers.

In 2014, we granted equity awards to our named executive officers pursuant to our Equity Incentive Plan. Restricted stock awards granted to our executive officers generally provide for ratable vesting over a three-year period, with accelerated vesting occurring under certain circumstances, as described in greater detail below under *Potential Payments Upon Termination or Change in Control*. We believe that the vesting restriction is an important retention device and encourages our named executive officers to focus on sustaining our company's long-



Table of Contents

term performance and delivering total return to our stockholders rather than encouraging decisions that result in a short-term benefit for our company.

**Employment Agreements**

We do not have any employment agreements with any of our named executive officers.

**Pension Benefits or Nonqualified Deferred Compensation**

We do not provide any of our named executive officers with pension benefits or nonqualified deferred compensation plans.

**Summary Compensation Table**

The following table summarizes the equity compensation paid to our named executive officers during the fiscal year ended December 31, 2014:

<b>Name and Principal Position</b>	<b>Restricted Stock Awards(1)</b>	<b>All Other Compensation(2)</b>	<b>Total(3)</b>
Thomas E. Siering, <i>President and Chief Executive Officer</i>	\$ 2,574,995	\$ 360,471	\$ 2,935,466
William Roth, <i>Chief Investment Officer</i>	\$ 2,574,995	\$ 360,471	\$ 2,935,466
Brad Farrell, <i>Chief Financial Officer and Treasurer</i>	\$ 937,500	\$ 121,287	\$ 1,058,787
Rebecca B. Sandberg, <i>General Counsel and Secretary</i>	\$ 374,996	\$ 54,727	\$ 429,723

(1) See also *Grants of Plan-Based Awards* below. The shares of restricted stock were granted pursuant to our Equity Incentive Plan and will vest in three equal annual installments beginning on the first anniversary of the grant date, so long as the named executive officer complies with the terms and conditions of the applicable award agreement. The values in this column are based on the \$9.79 closing market price of our common stock on the NYSE on the grant date, which was February 5, 2014.

(2) All Other Compensation paid during 2014 represents dividends and distributions on unvested shares of restricted common stock.

(3) Because we do not pay cash compensation to our named executive officers, any such compensation paid to our named executive officers by Pine River is not included in this Summary Compensation Table.

#### **Grants of Plan-Based Awards**

We adopted our Equity Incentive Plan, which was approved by our stockholders on May 21, 2013, to provide incentive compensation to attract and retain qualified directors, officers, advisers, consultants and other personnel, including PRCM Advisers, its affiliates and employees of PRCM Advisers and its affiliates. Our Equity Incentive Plan is administered by our Compensation Committee and permits grants of restricted common stock, phantom shares, dividend equivalent rights and other equity awards. Our Compensation Committee is authorized to issue up to 3,000,000 shares of our common stock pursuant to our Equity Incentive Plan. As of December 31, 2014, 404,947 shares of our common stock remained available for future issuance pursuant to our Equity Incentive Plan.

Table of Contents

The following table summarizes each equity award granted to our named executive officers pursuant to our Equity Incentive Plan during the fiscal year ended December 31, 2014:

Name	Grant		Grant Date Fair Value of Stock Awards(2)
	Date	All Other Stock Awards: Number of Shares(1)	
Thomas E. Siering	2/5/2014	263,023 \$	2,574,995
William Roth	2/5/2014	263,023 \$	2,574,995
Brad Farrell	2/5/2014	95,761 \$	937,500
Rebecca B. Sandberg	2/5/2014	38,304 \$	374,996

(1) See also *Summary Compensation Table* above. The shares of restricted stock were granted pursuant to our Equity Incentive Plan and will vest in three equal annual installments beginning on the first anniversary of the grant date, so long as the named executive officer complies with the terms and conditions of his or her restricted stock award agreement.

(2) The values in this column are based on the \$9.79 closing market price of our common stock on the NYSE on the grant date, which was February 5, 2014.

**Outstanding Equity Awards at Fiscal Year End**

The following table sets forth information concerning unvested restricted stock awards for each named executive officer as of December 31, 2014.

Name	Grant Date	Number of Shares or Units of Stock Not Yet Vested(1)	Stock Awards	
				Market Value of Shares or Units of Stock Not Yet Vested(2)
Thomas E. Siering	2/5/2014	263,023	\$	2,635,490
	5/29/2013	170,674	\$	1,710,153
William Roth	2/5/2014	263,023	\$	2,635,490
	5/29/2013	170,674	\$	1,710,153
Brad Farrell	2/5/2014	95,761	\$	959,525
	5/29/2013	51,202	\$	513,044
Rebecca B. Sandberg	2/5/2014	38,304	\$	383,806
	5/29/2013	27,308	\$	273,626

(1) The shares of restricted stock were granted pursuant to our Equity Incentive Plan and will vest in three equal annual installments beginning on the first anniversary of the grant date, so long as the named executive officer complies with the terms and conditions of his or her restricted stock award agreement.

(2) The values in this column are based on the \$10.02 closing market price of our common stock on the NYSE on December 31, 2014.

**Potential Payments upon Termination or Change in Control**

Our Equity Incentive Plan and the restricted stock award agreements with our named executive officers provide for accelerated vesting of any unvested restricted stock awards in the event of termination of service without cause or due to death, disability or retirement and, potentially, in connection with a change in control of our company. The following table sets forth estimates of the potential benefits to our named executive officers in connection with such circumstances, assuming such event occurred on December 31, 2014 and assuming our

Table of Contents

Compensation Committee exercised its discretion to accelerate vesting of unvested restricted stock awards upon a change in control. The actual payments due upon the occurrence of certain events could materially differ from the estimates provided in the table if such events occur on a different date.

Name		Value of Vesting Restricted Stock(1)
Thomas E. Siering	\$	4,345,644
William Roth	\$	4,345,644
Brad Farrell	\$	1,472,569
Rebecca B. Sandberg	\$	657,432

(1) Comprised of all outstanding shares of restricted stock held by such named executive officer that had not vested as of December 31, 2013. The values in this column are based on the \$10.02 closing market price of our common stock on the NYSE on December 31, 2014.

### COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed with management of the company the *Compensation Discussion and Analysis* contained in this proxy statement. Based on that review and discussion, the Compensation Committee recommends that the *Compensation Discussion and Analysis* be included in the company's proxy statement for the 2015 Annual Meeting of Stockholders.

*By the Compensation Committee:*

E. Spencer Abraham, Chairman

James J. Bender

W. Reid Sanders

### PROPOSAL 2: ADVISORY VOTE RELATING TO EXECUTIVE COMPENSATION

The SEC adopted rules pursuant to Section 951 of the Dodd-Frank Act that require public companies to provide stockholders with periodic advisory (non-binding) votes on executive compensation, also referred to as "say-on-pay" proposals.

As more fully described under the sections of this proxy statement entitled *Executive Officers* and *Certain Relationships and Related Party Transactions*, we are externally managed by PRCM Advisors pursuant to the Management Agreement between us and PRCM Advisers and

consequently, we do not have any employees and have not paid any cash compensation directly to any of our named executive officers. Each named executive officer's compensation is comprised of cash compensation paid to them directly by the parent company of our external manager, Pine River, and equity awards granted by our company pursuant to our Equity Incentive Plan. The amount of cash compensation paid to each named executive officer is determined by and is the responsibility of Pine River and the amount of the equity awards granted to each named executive officer is determined by our Compensation Committee. For more information regarding our executive compensation, please see *Executive Officers* above.

We are required by Section 14A of the Exchange Act to seek an advisory vote from our stockholders to approve the compensation of our named executive officers listed under *Executive Officers* in this proxy statement. At the 2014 annual meeting of stockholders, we provided our stockholders with an opportunity to cast an advisory vote regarding our executive compensation. At that meeting, the stockholders strongly approved the proposal, with

Table of Contents

more than 97% of the votes cast voting in favor of the proposal. Similar to last year, at the 2015 Annual Meeting, we are asking you to vote FOR the adoption of the following resolution:

**RESOLVED:** That the stockholders of the company approve, on a non-binding advisory basis, the compensation paid to the company's executive officers, as disclosed in the company's proxy statement for the 2015 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the *Compensation Discussion and Analysis* and related narrative discussions in the proxy statement.

Because this say-on-pay vote is advisory in nature, it is not binding on us, our Board of Directors, our Compensation Committee, PRCM Advisers or Pine River. Our Board of Directors has determined that our company will hold an advisory vote on executive compensation on an annual basis until we hold the next vote regarding the frequency of stockholder votes on executive compensation, which is currently planned to be held at our annual meeting of stockholders in May 2017. The next advisory vote on executive compensation will be held at our next annual meeting of stockholders in May 2016.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ADVISORY VOTE RELATED TO EXECUTIVE COMPENSATION.**

**PROPOSAL 3: APPROVAL OF TWO HARBORS SECOND RESTATED 2009 EQUITY INCENTIVE PLAN**

**Introduction**

Our 2009 Equity Incentive Plan was originally adopted on October 7, 2009 and initially provided for the issuance of up to 200,000 shares to eligible participants. At our 2013 annual meeting, stockholders approved the Restated 2009 Equity Incentive Plan which increased the number of shares available for issuance to 3,000,000 and provided for certain additional legal, governance and other compliance changes. There have been no additional amendments to or authorized share increases under the Restated 2009 Equity Incentive Plan since that time. As of the date of this proxy statement, 254,146 shares remain available for awards under the company's existing Restated 2009 Equity Incentive Plan.

On March 18, 2015, our Compensation Committee and Board of Directors approved a Second Restated 2009 Equity Incentive Plan, as amended and restated on such date (the 2015 Restated Plan), subject to stockholder approval. The 2015 Restated Plan increases the number of shares of common stock available for issuance under the existing plan from 3,000,000 to 13,000,000. Our Board of Directors approved the 2015 Restated Plan to, among other things:

- enable us to continue to provide common stock awards to our independent directors as part of their annual director compensation;
- enable us to continue to provide equity incentive awards to our executive officers and other key employees of our external manager, should the Compensation Committee of the Board determine to do so in the future; and

- maintain certain best practices of equity-based compensation, as more fully discussed below.

We believe the 2015 Restated Plan is beneficial to our stockholders for the following reasons:

- the requested increase in the number of authorized shares (i) represents less than three percent of our outstanding shares of common stock, and (ii) minimizes undesirable consequences of share overhang, i.e., the total number of shares related to outstanding options and other equity awards, plus shares available for grant, in relation to the total number of shares outstanding;
- the plan prohibits the repricing of equity grants without stockholder approval;
- the plan prohibits reload options;
- the plan requires options for shares to be priced at not less than the fair market value of the shares on the grant date;
- the plan does not provide for single-trigger automatic vesting upon a change in control;



Table of Contents

- the plan authorizes the Compensation Committee to include clawback provisions in grants; and
- the plan precludes dividends or dividend equivalents rights associated with performance-based awards from being paid if the performance measures are not met.

In addition to an increase in the number of shares available under the existing Restated 2009 Equity Incentive Plan, other changes provided for in the 2015 Restated Plan include:

- precluding the regranting of shares: (i) tendered or withheld to satisfy minimum statutory withholding taxes; (ii) tendered or withheld in payment of an option exercise price; (iii) not issued to an optionee on settlement in shares under Section 7(i) of the 2015 Restated Plan; or (iv) that have been repurchased by the Company using stock option exercise proceeds;
- establishing the maximum number of shares with respect to which options may be granted over any three-year period to any grantee as 1,500,000;
- establishing the maximum number of shares that may underlie grants, other than options, over any three-year period to any grantee as 600,000;
- clarifying that, subject to applicable listing requirements, the number of shares that may be granted shall not be reduced by (a) shares issued under awards granted in assumption, substitution or exchange for previously granted awards of a company acquired by the Company or (b) available shares under a shareholder approved plan of an acquired company;
- prohibiting the replacement or repricing of underwater awards without stockholder approval;
- clarifying that all awards are subject to the forfeiture as required under the Dodd-Frank Act and the related rules of the SEC or applicable listing exchange or as required by under any clawback or recoupment policy that the Board of Directors or the Compensation Committee may adopt; and
- other conforming and technical modifications.

A summary of the principal features of the 2015 Restated Plan is set forth below. This summary is qualified in its entirety by reference to the full text of the 2015 Restated Plan, which is attached as [Appendix A](#) to this proxy statement.

If stockholders do not approve the 2015 Restated Plan, grants will continue to be made under the existing Equity Incentive Plan as currently in effect, to the extent shares of the company's common stock are available (without regard to the increase in shares approved by the Board of Directors).

**Summary of the Principal Features of the 2015 Restated Plan**

*Administration*

The 2015 Restated Plan is administered by the Compensation Committee of our Board of Directors. The Compensation Committee, appointed by our Board of Directors, has the full authority to administer and interpret the 2015 Restated Plan; to authorize the granting of awards; to determine the eligibility of directors, officers, advisors, consultants and other personnel, including personnel of our external manager and its affiliates, to receive an award; to determine the number of shares of common stock to be covered by each award (subject to the individual participant limitations provided in the 2015 Restated Plan); to determine the terms, provisions and conditions of each award (which may not be inconsistent with the terms of the 2015 Restated Plan); to prescribe the form of instruments evidencing awards; and to take any other actions and make all other determinations that it deems necessary or appropriate in connection with the 2015 Restated Plan or the administration or interpretation thereof. In connection with this authority, the Compensation Committee may, among other things, establish performance goals that must be met in order for awards to be granted or to vest, or for the restrictions on any such awards to lapse. The Compensation Committee administering the 2015 Restated Plan will consist of not less than three directors, each of whom is intended to be, to the extent required by Rule 16b-3 of the Exchange Act, a non-employee director and will, at such times as we are subject to Section 162(m) of the Code, qualify as an outside director for purposes of Section 162(m) of the Code, and meet the requirements of the NYSE for director independence and the requirement to be an eligible member of a compensation committee. The Compensation Committee is authorized to delegate certain authority under the 2015 Restated Plan to a subcommittee of the Compensation Committee or Board of Directors consisting of one or more directors.

Table of Contents

*Available Shares*

The 2015 Restated Plan provides for grants of common stock, restricted common stock, phantom shares, dividend equivalent rights and other equity-based awards, subject to a ceiling of 13,000,000 shares available for issuance under the plan. The maximum number of shares that may underlie awards over any three-year period to any eligible person may not exceed 1,500,000 as options and 600,000 as other grants. If an award granted under the 2015 Restated Plan expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards. In addition, the shares underlying any phantom shares or DERs paid out in cash, the underlying shares may again be made the subject of grants under the 2015 Restated Plan. The 2015 Restated Plan shall remain available until all shares available for grant have been awarded and all grants have been settled although the Board may terminate the plan at any earlier time. Plan termination will not affect the rights and obligations of those with outstanding grants then in effect. No award may be granted under the 2015 Restated Plan to any person who, assuming payment of all awards held by such person, would own or be deemed to own more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock.

*Awards under the Plan*

*Restricted Shares of Common Stock.* A restricted share award is an award of shares of common stock that is subject to restrictions on transferability and such other restrictions, if any, that the Compensation Committee may impose at the date of grant. Grants of restricted shares of common stock may be subject to vesting schedules as determined by the Compensation Committee. The restrictions may lapse separately or in combination at such times and under such circumstances, including a specified period of employment or the satisfaction of pre-established criteria, in such installments or otherwise, as the Compensation Committee may determine. Except to the extent restricted under the award agreement relating to the restricted shares of common stock, a participant granted restricted shares of common stock has all of the rights of a stockholder, including the right to vote and the right to receive dividends on the restricted shares of common stock. Dividends may be paid on restricted shares of common stock, whether or not vested, at the same rate and on the same date as on shares of our common stock. In addition, dividends otherwise owed on restricted shares that vest based on performance measures shall not be paid unless and until the performance measurements are met.

*Phantom Shares.* Phantom shares, when issued, will reduce the number of shares available for grant under the 2015 Restated Plan and will vest as provided in the applicable award agreement. A phantom share represents a right to receive the fair value of a share of common stock, or, if provided by the Compensation Committee, the right to receive the fair value of a share of common stock in excess of a base value established by the Compensation Committee at the time of grant. Phantom shares may generally be settled in cash or by transfer of shares of common stock (as may be elected by the participant or the Compensation Committee, as may be provided by the Compensation Committee at the time of grant). The Compensation Committee may, in its discretion and under certain circumstances, permit a participant to receive as settlement of the phantom shares installments over a period not to exceed ten years. The Compensation Committee may determine that the holders of awards of phantom shares will be entitled to receive dividend equivalents, which shall be payable at such time that dividends are paid on outstanding shares. However, dividends otherwise owed on phantom shares that vest based on performance measures shall not be paid unless and until the performance measures are met.

*Stock Options.* A stock option award is an award of the right to purchase a specific number of shares of common stock at a fixed exercise price determined on the date of grant. Stock option awards may either be incentive or non-qualified stock options; provided that incentive stock options may only be granted to our employees. The exercise price of such options must equal at least the fair market value of our common stock on the date of grant. An incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of our stock, or of certain of our subsidiary corporations, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value of our common stock on the grant date. The Compensation Committee will determine the methods of payment of

the exercise price of an option, which may include cash, shares or cancellation of indebtedness acceptable to the Compensation Committee. Subject to the provisions of the 2015 Restated Plan, the Compensation Committee determines the remaining terms of the options (e.g., vesting). Unless otherwise provided in the grant agreement, after the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, for three months following the date of termination, except that if the participant terminates or is

Table of Contents

terminated for cause, no exercise after termination is permitted. If termination is due to death, the option, to the extent vested, will remain exercisable for 12 months. If the termination is due to retirement or disability, the option, to the extent vested, will remain exercisable for 24 months. In no event may an option be exercised later than the expiration of its term. A participant shall have no rights as a stockholder until the participant exercises the option and the stock certificate is issued to the participant. Without stockholder approval, the Compensation Committee may not permit any repricing, meaning any reduction in exercise price or cancellation of an option in exchange for an option with a lower exercise price or a cancellation of an option for cash or another grant if the exercise price of the option is greater than the fair market value of the shares subject to the option at the time of cancellation, other than in conjunction with a change of control or other anti-dilution adjustments permitted.

*DERs.* An award of DERs represents the right to receive (or have credited) the equivalent value (in cash, common stock or a combination of both, as determined by the Compensation Committee at the time of grant) of dividends paid on common stock. A participant holding DERs receives a credit for dividends declared on common stock on each dividend payment date during the period between (x) the date the award is granted to the participant and (y) the date the award is exercised, vests or expires, as determined by the Compensation Committee. The specific terms of a DER will be established by the Compensation Committee in its discretion.

*Other Share-Based Awards.* The 2015 Restated Plan authorizes the granting of other awards based upon shares of our common stock, including the grant of shares without conditions (including the grant of shares without conditions to our independent directors), the grant of shares based upon certain conditions, grants of restricted stock units and the grant of securities convertible into common stock, subject to terms and conditions established at the time of grant.

*Performance Awards.* The Compensation Committee may, in its discretion, grant awards intended to qualify as performance-based compensation for purposes of Internal Revenue Code Section 162(m). Such performance-based awards will result in a payment to a participant only if performance goals established by the Compensation Committee are achieved, as determined by the Compensation Committee, and any other applicable vesting provisions are satisfied. The Compensation Committee will establish performance goals in its discretion, in compliance with the requirements of Section 162(m), which, depending on the extent to which they are met, will determine the number and/or the value of shares of common stock to be paid out to participants. For purposes of such awards, the performance goals may be one or more of the following, as determined by the Compensation Committee: (i) pre-tax income, (ii) after-tax income, (iii) net income (meaning net income as reflected in our financial reports for the applicable period, on an aggregate, diluted and/or per share basis), (iv) operating income, (v) cash flow, (vi) earnings per share, (vii) return on equity, (viii) return on invested capital or assets, (ix) cash and/or funds available for distribution, (x) appreciation in the fair market value of our common stock, (xi) return on investment, (xii) total return to stockholders (meaning the aggregate of our common stock price appreciation and dividends paid (assuming full reinvestment of dividends) during the applicable period), (xiii) net earnings growth, (xiv) stock appreciation (meaning an increase in the price or value of our common stock after the date of grant of an award and during the applicable period), (xv) related return ratios, (xvi) increase in revenues, (xvii) our published ranking against our peer group of real estate investment trusts based on total stockholder return, (xviii) net earnings, (xix) changes (or the absence of changes) in the per share or aggregate market price of our common stock, (xx) number of securities sold, (xxi) earnings before any one or more of the following items: interest, taxes, depreciation or amortization for the applicable period, as reflected in our financial reports for the applicable period and (xxii) total revenue growth (meaning the increase in total revenues after the date of grant of an award and during the applicable period, as reflected in our financial reports for the applicable period).

***Prohibitions on Transfers of Options***

No option shall be assignable or transferable, except by will or the laws of descent and distribution of the state wherein the Grantee is domiciled at the time of his death; provided, however, that the Compensation Committee may (but need not) permit other transfers, where the Compensation Committee concludes that such transferability (i) does not result in accelerated taxation, (ii) does not cause any option intended to

be an incentive stock option to fail to be described in Section 422(b) of the Internal Revenue Code and (iii) is otherwise appropriate and desirable. Such transfers must be made without consideration and only to family members (or pursuant to a qualified domestic relations order in the event of divorce of an optionee) or to trusts or other entities for the benefit of family members. The Compensation Committee may also allow transfers to nonprofit organizations exempt from tax under Section 501(c)(3) of the Internal Revenue Code.

Table of Contents

*Change of Control*

Under the 2015 Restated Plan, a change of control is generally defined as the occurrence of any of the following events: (i) the acquisition of more than 50% of our voting shares or outstanding shares by any person; (ii) the sale or disposition of all or substantially all of our assets; (iii) a merger or consolidation where our stockholders immediately prior to such event would not, immediately after such merger or consolidation, beneficially own shares representing in the aggregate more than 50% of the voting power of the surviving or resulting entity in substantially the same proportion as such stockholders' ownership immediately prior to the merger or consolidation; (iv) during any 24-calendar-month period, our directors, including subsequent directors recommended or approved by our directors, but excluding directors who became directors as a result of an actual or threatened election contest or consent solicitation, at the beginning of such period cease for any reason other than due to death to constitute a majority of our Board of Directors; or (v) consummation of a stockholder approved liquidation or dissolution. Notwithstanding the foregoing, no event or condition described in clauses (i) through (v) above shall constitute a change of control if it results from a transaction between us and our external manager or an affiliate of our external manager.

Upon a change of control, the Compensation Committee may make such adjustments as it, in its discretion, determines are necessary or appropriate in light of the change of control, but only if the Compensation Committee determines that the adjustments do not have a substantial adverse economic impact on the participants (as determined at the time of the adjustments). Such adjustments may include an automatic lapse, upon a change of control, of all restrictions and conditions on all grants under the 2015 Restated Plan if the grantee separates from service without cause or for good reason within 24 months of the change of control. Unless otherwise provided in the grant agreement, DERs automatically vest on a change of control.

*Amendments and Termination*

Our Board of Directors may amend, alter or discontinue the 2015 Restated Plan but cannot take any action that would impair the rights of a grantee with respect to grants previously made without such grantee's consent. To the extent necessary and desirable, our Board of Directors must obtain approval of our stockholders for any amendment that would:

- other than through anti-dilution or similar adjustments as provided in the 2015 Restated Plan, increase the total number of shares of common stock reserved for issuance under the 2015 Restated Plan or the maximum number of shares permitted to be issued to any grantee in any one year;
- change the class of officers, directors, employees, consultants and advisors eligible to participate in the 2015 Restated Plan;
- reprice any awards under the 2015 Restated Plan;
- replace any underwater awards under the 2015 Restated Plan; or
- otherwise require such approval.

The Compensation Committee may amend the terms of any award granted under the 2015 Restated Plan, prospectively or retroactively, but generally may not impair the rights of any participant without his or her consent.

*Federal Income Tax Consequences*

The following is a very general description of some of the basic tax principles that apply to awards under the 2015 Restated Plan. The grant of an option will create no tax consequences for the participant or the company. A participant will have no taxable income upon exercise of an incentive stock option, except that the alternative minimum tax may apply. Upon exercise of a non-qualified option, a participant generally must recognize ordinary income equal to the fair market value of the shares acquired minus the exercise price. Upon a disposition of shares acquired by exercise of an incentive stock option before the end of the applicable incentive stock option holding periods, the participant generally must recognize ordinary income equal to the lesser of (1) the fair market value of the shares at the date of exercise minus the exercise price or (2) the amount realized upon the disposition of the option shares minus the exercise price. Otherwise, a participant's disposition of shares acquired upon the exercise of an option generally will result in capital gain or loss. Other awards under the 2015 Restated Plan, including restricted stock, phantom shares and DERs generally will result in ordinary income to the participant at the later of the time of delivery of cash or shares, or the time that either the risk of forfeiture or restriction on transferability



Table of Contents

lapses on previously delivered shares or other property. Except as discussed below, we generally will be entitled to a tax deduction equal to the amount recognized as ordinary income by the participant in connection with an award, but will be entitled to no tax deduction relating to amounts that represent a capital gain to a participant. Thus, we will not be entitled to any tax deduction with respect to an incentive stock option if the participant holds the shares for the incentive stock option holding periods.

Internal Revenue Code Section 162(m) generally limits the tax deductibility of compensation paid to each of certain executive officers to \$1 million per year, but allows deductions in excess of this amount for performance-based compensation as defined under Section 162(m). We intend that options granted under the 2015 Restated Plan will qualify as performance-based compensation under Section 162(m). In addition, other awards under the v, such as restricted stock, phantom shares, DERs and other stock-based awards, unless issued as performance-based grants, generally will not qualify, so that compensation paid to executive officers in connection with such awards may not be deductible.

Please note that the forgoing is general tax discussion and different tax rules may apply to specific participants and transactions under the 2015 Restated Plan.

***Additional Information Regarding New Plan Benefits***

On January 27, 2015, the Compensation Committee conditionally approved the granting of restricted stock awards to our named executive officers and other management personnel in recognition of our overall development and the financial performance of the business during the fiscal year ended December 31, 2014 (the 2015 Management Awards ). These 2015 Management Awards were made subject to stockholder approval of the 2015 Restated Plan at the 2015 Annual Meeting. In the event stockholders do not approve the 2015 Restated Plan, the 2015 Management Awards will not become effective. The amount of the 2015 Management Awards and the applicable recipients are set forth below:

Name	Value of Restricted Stock Award(1)
Thomas E. Siering	\$ 2,399,999
William Roth	\$ 2,399,999
Brad Farrell	\$ 1,000,000
Rebecca B. Sandberg	\$ 400,000
Non-Executive Officer Employees	\$ 2,675,000

(1) The number of shares of restricted stock to be granted pursuant the 2015 Management Awards, assuming stockholder approval of the 2015 Restated Plan is obtained at the 2015 Annual Meeting, will be based on the closing market price of our common stock on the NYSE on May 14, 2015.

Other than as set forth in the preceding paragraph, the company has no current proposals, plans or arrangements, written or otherwise, to grant any specific awards under the 2015 Restated Plan to any executive officers, officers, advisors, consultants and other personnel, including personnel of our external manager and its affiliates or other service providers of the company.

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

Under the company's compensation program for independent directors, each independent director currently receives one-half of such director's annual director fees in shares of common stock. The common stock portion of the annual director fee is granted pursuant to a stock award agreement under our existing Equity Incentive Plan on the first business day following the annual meeting of stockholders at which such director is elected. The number of shares subject to issuance is determined based on the fair market value of our common stock on the last trading day preceding the grant date. Common stock granted to the independent directors under our existing Equity Incentive Plan as part of the annual director fees noted above is not subject to vesting requirements.

Table of Contents*Market Price of the Common Stock*

As of March 20, 2015, the fair market value of our common stock was \$10.90 per share, based on the closing price of the Common Stock as reported by the NYSE.

**Securities Authorized for Issuance under Equity Compensation Plans**

We adopted our existing equity incentive plan to provide incentive compensation to attract and retain qualified directors, officers, advisers, consultants and other personnel, including our external manager and affiliates and personnel of our external manager and affiliates, and any joint venture affiliates of ours. The following table presents certain information about our equity compensation plan as of December 31, 2014:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	December 31, 2014	
		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)
Equity compensation plans approved by stockholders		\$	404,947
Equity compensation plans not approved by stockholders			
Total		\$	404,947

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF TWO HARBORS SECOND RESTATED 2009 EQUITY INCENTIVE PLAN.**

*[Remainder of page left intentionally blank]*

Table of Contents

**PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We are asking our stockholders to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2015. Although ratification is not required by our Bylaws or otherwise, our Board of Directors is submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate practice. In the event stockholders do not ratify the appointment, the appointment will be reconsidered by our Audit Committee. Even if the selection is ratified, our Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of our company. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting, will have an opportunity to make a statement if he or she so desires and is expected to be available to respond to appropriate questions.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR RATIFICATION OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

**AUDIT COMMITTEE REPORT AND AUDITOR FEES**

**Audit Committee Report**

The Board of Directors has appointed an Audit Committee presently composed of independent directors Stephen G. Kasnet, W. Reid Sanders, and Hope B. Woodhouse. Mr. Kasnet serves as chairman of the Audit Committee. Each of the directors on our Audit Committee is an independent director under the NYSE listing standards and SEC rules. The Board of Directors has determined that each of Mr. Kasnet and Ms. Woodhouse satisfies the definition of financial sophistication and is an audit committee financial expert, as defined under rules and regulations promulgated by the SEC.

The Audit Committee's responsibility is one of oversight as set forth in its charter, which is available on our website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com). It is not the duty of the Audit Committee to prepare our financial statements, to plan or conduct audits or to determine that our financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Our management is responsible for preparing our financial statements and for maintaining internal controls. Our independent registered public accounting firm is responsible for auditing the financial statements and for expressing an opinion as to whether those audited financial statements fairly present our financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

The Audit Committee has reviewed and discussed our audited financial statements with management and with Ernst & Young LLP, our independent registered public accounting firm for 2014.

The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board, or PCAOB.

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

The Audit Committee has received from Ernst & Young LLP the written disclosures and the letter from Ernst & Young LLP required by the PCAOB regarding Ernst & Young LLP's communication with the Audit Committee concerning independence, and has discussed Ernst & Young LLP's independence with Ernst & Young LLP.

Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited consolidated financial statements for the year ended December 31, 2014, be included in our Annual Report on Form 10-K for the year ended December 31, 2014, for filing with the SEC. The Audit Committee also has recommended the appointment of Ernst & Young LLP to serve as the company's independent registered public accounting firm for the year ending December 31, 2015.

*By the Audit Committee:*

Stephen G. Kasnet, Chairman

W. Reid Sanders

Hope B. Woodhouse

Table of Contents**Use of Audit Committee Report**

In accordance with and to the extent permitted by applicable law or regulation, the information contained in the foregoing Report of the Audit Committee is not soliciting material, is not deemed to be filed with the SEC, and is not to be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or under the Exchange Act.

**Auditor Fees**

We retained Ernst & Young LLP to audit our consolidated financial statements for the years ended December 31, 2014. We also retained Ernst & Young LLP, as well as other accounting and consulting firms, to provide various other services in 2014.

The table below presents the aggregate fees billed to us for professional services performed by Ernst & Young LLP for the years ended December 31, 2014 and 2013:

		Year Ended December 31,		
		2014		2013
Audit fees(1)	\$	1,160,644	\$	792,750
Audit-related fees(2)		272,975		82,200
Tax fees(3)		115,648		169,948
Total principal accountant fees	\$	1,549,267	\$	1,044,898

- 
- (1) Audit fees pertain to the audit of our annual Consolidated Financial Statements, including review of the interim financial statements contained in our Quarterly Reports on Form 10-Q, comfort letters to underwriters in connection with our registration statements and common stock offerings, attest services, consents to the incorporation of the Ernst & Young LLP audit report in publicly filed documents and assistance with and review of documents filed with the SEC.
  - (2) Audit-related fees pertain to assurance and related services that are traditionally performed by the principal accountant, including accounting consultations and audits in connection with proposed or consummated acquisitions, internal control reviews and consultation concerning financial accounting and reporting standard.
  - (3) Tax fees pertain to services performed for tax compliance, including REIT compliance, tax planning and tax advice, including preparation of tax returns and claims for refund and tax-payment planning services. Tax planning and advice also includes assistance with tax audits and appeals, and tax advice related to specific transactions.

**Auditor Services Pre-Approval Policy**

The services performed by Ernst & Young LLP in 2014 were pre-approved by our Audit Committee in accordance with the pre-approval policy set forth in our Audit Committee Charter. This policy requires that all engagement fees and the terms and scope of all auditing and non-auditing services be reviewed and approved by the Audit Committee in advance of their formal initiation.



Table of Contents

**OTHER MATTERS**

**Meeting Matters**

Our Board of Directors does not intend to bring other matters before the Annual Meeting except items incident to the conduct of the meeting. However, on all matters properly brought before the meeting by our Board of Directors or others, the persons named as proxies in the accompanying proxy, or their substitutes, will vote on such matters in their discretion.

**Stockholder Proposals and Director Nominations for 2016 Annual Meeting**

Our 2016 annual meeting is expected to be held on or about May 19, 2016. If a stockholder intends to submit a proposal for inclusion in our proxy statement for our 2016 annual meeting pursuant to Rule 14a-8 under the Exchange Act, the stockholder proposal must be received by the Secretary of Two Harbors Investment Corp., 590 Madison Avenue, 36th Floor, New York, New York 10022, on or before November 27, 2015. If such proposal is in compliance with all of the requirements of Rule 14a-8 under the Exchange Act, the proposal will be included in our proxy statement and proxy card relating to such meeting. We suggest such proposals be submitted by certified mail, return receipt requested. Nothing in this paragraph shall be deemed to require us to include any stockholder proposal that does not meet all the requirements for such inclusion established by the SEC in effect at that time.

Stockholders may (outside of Rule 14a-8) nominate candidates for election to the Board of Directors or propose business for consideration at our 2016 annual meeting under Maryland law and our Bylaws. Our Bylaws provide that, with respect to an annual meeting of stockholders, nominations of individuals for election to our Board of Directors and the proposal of other business to be considered by stockholders may be made only (i) pursuant to our notice of the meeting; (ii) by or at the direction of our Board of Directors; or (iii) by a stockholder who was a stockholder of record both at the time of giving the notice required by our Bylaws and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions set forth in our Bylaws. Under our Bylaws, notice of such a nomination or proposal of other business must generally be provided to the Secretary not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting. In addition, any such nomination or proposal must include the information required by our Bylaws. Accordingly, any stockholder who intends to submit such a nomination or such a proposal at our 2016 annual Meeting of Stockholders must notify us in writing of such proposal by November 27, 2015, but in no event earlier than October 28, 2015.

**Annual Report**

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed with the SEC, will be sent to any stockholder, without charge, upon written request to Two Harbors Investment Corp., Attention: Investor Relations, 590 Madison Avenue, 36th Floor, New York, New York 10022. You also may obtain our Annual Report on Form 10-K on the Internet at the SEC's website, [www.sec.gov](http://www.sec.gov), or on our website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com). Our 2014 Annual Report, which contains information about our business, but is not part of our disclosure deemed to be filed with the SEC, is also available on our website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com).





Table of Contents

**Appendix A Two Harbors Second Restated 2009 Equity Incentive Plan**

TWO HARBORS  
SECOND RESTATED 2009 EQUITY INCENTIVE PLAN

1. **PURPOSE.** The Plan is intended to provide incentives to key personnel, employees, officers, directors, advisors, consultants and others expected to provide significant services to the Company and its subsidiaries, including the personnel, employees, officers and directors of the other Participating Companies, to encourage a proprietary interest in the Company, to encourage such key personnel to remain in the service of the Company and the other Participating Companies, to attract new personnel with outstanding qualifications, and to afford additional incentive to others to increase their efforts in providing significant services to the Company and the other Participating Companies. In furtherance thereof, the Plan permits awards of equity-based incentives to key personnel, employees, officers and directors of, and certain other providers of services to, the Company or any other Participating Company.

2. **DEFINITIONS.** As used in this Plan, the following definitions apply:

**Act** shall mean the Securities Act of 1933, as amended.

**Agreement** shall mean a written or electronic agreement entered into between the Company and a Grantee pursuant to the Plan.

**Board** shall mean the Board of Directors of the Company.

**Cause** shall mean, unless otherwise provided in the Grantee's Agreement, (i) engaging in (A) willful or gross misconduct or (B) willful or gross neglect, (ii) repeatedly failing to adhere to the directions of superiors or the Board or the written policies and practices of the Company, the Subsidiaries, the Manager or any of their respective affiliates, (iii) the commission of a felony or a crime of moral turpitude, or any crime involving the Company, the Subsidiaries, the Manager or any of their respective affiliates, (iv) fraud, misappropriation, embezzlement or material or repeated insubordination, (v) a material breach of the Grantee's employment agreement (if any) with the Company, the Subsidiaries, the Manager or any of their respective affiliates (other than a termination of employment by the Grantee), or (vi) any illegal act detrimental to the Company, the Subsidiaries, the Manager or any of their respective affiliates, all as determined by the Committee.

**Code** shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

**Committee** shall mean the Compensation Committee of the Company as appointed by the Board in accordance with Section 4 of the Plan; provided, however, that if the Shares are listed on a national stock exchange the Committee shall at all times consist solely of persons who qualify as (i) a Non-Employee Director under Rule 16b-3(b)(3)(i) promulgated under the Exchange Act; (ii) an independent director and an

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

eligible member of a compensation committee under the rules of the principal stock exchange on which the Shares are then traded; and (iii) to the extent that relief from the limitation of Section 162(m) of the Code is sought, as an Outside Director under Section 1.162-27(e)(3)(i) of the Treasury Regulations.

Common Stock shall mean the Company's common stock, par value \$0.01 per share, either currently existing or authorized hereafter.

Company shall mean Two Harbors Investment Corp., a Maryland corporation.

DER shall mean a right awarded under Section 11 of the Plan to receive (or have credited) the equivalent value (in cash or Shares) of dividends paid on Common Stock.

Disability shall mean, unless otherwise provided by the Committee in the Grantee's Agreement, the occurrence of an event which would entitle the Grantee to the payment of disability income under an approved long-

---

Table of Contents

term disability income plan or a long-term disability of the Company or a Participating Company as determined by the Committee in its absolute discretion or pursuant to any other standard as may be adopted by the Committee. Notwithstanding the foregoing, no circumstances or condition shall constitute a Disability to the extent that, if it were, a 20% tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Disability to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax.

Eligible Persons shall mean officers, directors, advisors, personnel and employees of the Participating Companies and other persons expected to provide significant services (of a type expressly approved by the Committee as covered services for these purposes) to one or more of the Participating Companies. For purposes of the Plan, a consultant, advisor, vendor, customer or other provider of significant services to the Company or any other Participating Company shall be deemed to be an Eligible Person.

Employee shall mean an individual, including an officer of a Participating Company, who is employed (within the meaning of Code Section 3401 and the regulations thereunder) by the Participating Company.

Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Exercise Price shall mean the price per Share of Common Stock, determined by the Board or the Committee, at which an Option may be exercised.

Fair Market Value shall mean the value of one share of Common Stock, determined as follows:

(i) If the Shares are then listed on a national stock exchange, the closing sales price per Share on the exchange on the applicable date, or if there is no closing price on that date, then on the last preceding date on which there was a sale of Shares on such exchange, as determined by the Committee.

(ii) If the Shares are not then listed on a national stock exchange but are then traded on an over-the-counter market, the average of the closing bid and asked prices for the Shares in such over-the-counter market on the applicable date, or if there are no such closing bid and asked prices on that date, then for the last preceding date on which there was a sale of such Shares in such market, as determined by the Committee.

(iii) If neither (i) nor (ii) applies, such value as the Committee in its discretion may in good faith determine. Notwithstanding the foregoing, where the Shares are listed or traded, the Committee may make discretionary determinations in good faith where the Shares have not been traded for 10 trading days.

## Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

Notwithstanding the foregoing, with respect to any stock right within the meaning of Section 409A of the Code, Fair Market Value shall not be less than the fair market value of the Shares determined in accordance with Treasury Regulation 1.409A-1(b)(iv).

Grant shall mean the issuance of an Incentive Stock Option, Non-qualified Stock Option, Restricted Stock, Phantom Share, DER, or other equity-based grant as contemplated herein or any combination thereof as applicable to an Eligible Person. The Committee will determine the eligibility of personnel, employees, officers, directors and others expected to provide significant services to the Participating Companies based on, among other factors, the position and responsibilities of such individuals, the nature and value to the Participating Company of such individuals' accomplishments and potential contribution to the success of the Participating Company whether directly or through its subsidiaries.

Grantee shall mean an Eligible Person to whom Options, Restricted Stock, Phantom Shares, DERs or other equity-based awards are granted hereunder.

Table of Contents

Incentive Stock Option shall mean an Option of the type described in Section 422(b) of the Code issued to an Employee of (i) the Company, or (ii) a subsidiary corporation or a parent corporation as defined in Section 424(f) of the Code.

Manager shall mean PRCM Advisers LLC, the Company's manager.

Non-qualified Stock Option shall mean an Option not described in Section 422(b) of the Code.

Option shall mean any option, whether an Incentive Stock Option or a Non-qualified Stock Option, to purchase, at a price and for the term fixed by the Committee in accordance with the Plan, and subject to such other limitations and restrictions in the Plan and the applicable Agreement, a number of Shares determined by the Committee.

Optionee shall mean any Eligible Person to whom an Option is granted, or the Successors of the Optionee, as the context so requires.

Participating Companies shall mean the Company, the Subsidiaries, the Manager and any of their respective affiliates, including any of the Company's joint venture affiliates, which with the consent of the Board participates in the Plan.

Phantom Share shall mean a right, pursuant to the Plan, of the Grantee to payment of the Phantom Share Value.

Phantom Share Value, per Phantom Share, shall mean the Fair Market Value of a Share or, if so provided by the Committee, such Fair Market Value to the extent in excess of a base value established by the Committee at the time of grant.

Plan shall mean the Company's Restated 2009 Equity Incentive Plan, as set forth herein, and as the same may from time to time be amended.

Purchase Price shall mean the Exercise Price times the number of Shares with respect to which an Option is exercised.

Restricted Stock shall mean an award of Shares that are subject to restrictions hereunder.

Retirement shall mean, unless otherwise provided by the Committee in the Grantee's Agreement, the Termination of Service (other than for Cause) of a Grantee:

- (i) on or after the Grantee's attainment of age 65;
- (ii) on or after the Grantee's attainment of age 55 with five consecutive years of service with the Participating Companies; or
- (iii) as determined by the Committee in its absolute discretion pursuant to such other standard as may be adopted by the Committee.

Shares shall mean shares of Common Stock of the Company, adjusted in accordance with Section 15 of the Plan (if applicable).

Subsidiary shall mean any corporation, partnership, limited liability company or other entity at least 50% of the economic interest in the equity of which is owned, directly or indirectly, by the Company or by another subsidiary.

Table of Contents

Successors of the Optionee shall mean the legal representative of the estate of a deceased Optionee or the person or persons who shall acquire the right to exercise an Option by bequest or inheritance or by reason of the death of the Optionee.

Termination of Service shall mean the time when the employee-employer relationship or directorship, or other service relationship (sufficient to constitute service as an Eligible Person), between the Grantee and the Participating Companies is terminated for any reason, with or without Cause, including, but not limited to, any termination by resignation, discharge, death or Retirement; provided, however, Termination of Service shall not include a termination where there is a simultaneous continuation of service of the Grantee (sufficient to constitute service as an Eligible Person) for a Participating Company. The Committee, in its absolute discretion, shall determine the effects of all matters and questions relating to Termination of Service, including, but not limited to, the question of whether any Termination of Service was for Cause and all questions of whether particular leaves of absence constitute Terminations of Service. For this purpose, the service relationship shall be treated as continuing intact while the Grantee is on military leave, sick leave or other bona fide leave of absence (to be determined in the discretion of the Committee). Notwithstanding the foregoing, with respect to any Grant that is subject to Section 409A of the Code, Termination of Service shall be interpreted within the meaning of Section 409A of the Code and Treasury Regulation 1.409A-1(h).

3. EFFECTIVE DATE. The Plan was originally adopted as the Two Harbors Investment Corp. 2009 Equity Incentive Plan, with an original effective date of October 7, 2009. The Plan as restated herein, including the increase in the number of Shares available for issuance, was approved by the Board on March 18, 2015, subject to approval of the shareholders at their next annual meeting. If this Plan as restated is not approved by the shareholders in accordance with Maryland law at the next annual meeting, the Plan as restated shall be void, but the Plan as in existence before its restatement shall remain in effect. The Plan shall remain available for the grant of awards until all Shares available for grant have been awarded and all awards have been settled. Notwithstanding the foregoing, the Plan may be terminated at such earlier time as the Board may determine. Termination of the Plan will not affect the rights and obligations of the Grantees and the Company arising under Grants theretofore made and then in effect.

4. ADMINISTRATION.

(a) Membership on Committee. The Plan shall be administered by the Committee appointed by the Board. If no Committee is designated by the Board to act for those purposes, the full Board shall have the rights and responsibilities of the Committee hereunder and under the Agreements.

(b) Committee Meetings. The acts of a majority of the members present at any meeting of the Committee at which a quorum is present, or acts approved in writing by a majority of the entire Committee, shall be the acts of the Committee for purposes of the Plan. If and to the extent applicable, no member of the Committee may act as to matters under the Plan specifically relating to such member.

(c) Grant of Awards.

(i) The Committee shall from time to time at its discretion select the Eligible Persons who are to be issued Grants and determine the number and type of Grants to be issued under any Agreement to an Eligible Person. In particular, the Committee shall (A) determine the terms and conditions, not inconsistent with the terms of the Plan, of any Grants awarded hereunder (including, but not limited to the performance goals



and periods applicable to the award of Grants); (B) determine the time or times when and the manner and condition in which each Option shall be exercisable and the duration of the exercise period; (C) determine the circumstances under which reimbursement to the Company (claw back) or any Participating Company of any payment of cash or Shares under a Grant may be required; and (D) determine or impose other conditions to the Grant or exercise of Options under the Plan as it may deem appropriate. The Committee may establish such rules, regulations and procedures for the administration of the Plan as it deems appropriate, determine the extent, if any, to which Options, Phantom Shares, Shares (whether or not Shares of Restricted Stock), DERs or other equity-based awards

Table of Contents

shall be forfeited (whether or not such forfeiture is expressly contemplated hereunder), and take any other actions and make any other determinations or decisions that it deems necessary or appropriate in connection with the Plan or the administration or interpretation thereof. The Committee shall also cause each Option to be designated as an Incentive Stock Option or a Non-qualified Stock Option, except that no Incentive Stock Options may be granted to an Eligible Person who is not an Employee of the Company or a subsidiary corporation or a parent corporation as defined in Section 424(f) of the Code. The Grantee shall take whatever additional actions and execute whatever additional documents the Committee may in its reasonable judgment deem necessary or advisable in order to carry or effect one or more of the obligations or restrictions imposed on the Grantee pursuant to the express provisions of the Plan and the Agreement. DERs will be exercisable separately or together with Options, and paid in cash or other consideration at such times and in accordance with such rules, as the Committee shall determine in its discretion. Unless expressly provided hereunder, the Committee, with respect to any Grant, may exercise its discretion hereunder at the time of the award or thereafter. The Committee shall have the right and responsibility to interpret the Plan and the interpretation and construction by the Committee of any provision of the Plan or of any Grant thereunder, including, without limitation, in the event of a dispute, shall be final and binding on all Participating Companies, Grantees and other persons to the maximum extent permitted by law. Without limiting the generality of Section 23, no member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Grant hereunder.

(ii) Notwithstanding clause (i) of this Section 4(c), any award under the Plan to an Eligible Person who is a member of the Committee shall be made by the full Board, but for these purposes the directors of the Corporation who are on the Committee shall be required to be recused in respect of such awards and shall not be permitted to vote.

(d) Awards.

(i) Agreements. Grants to Eligible Persons shall be evidenced by Agreements in such form as the Committee shall from time to time determine. Such Agreements shall comply with and be subject to the terms and conditions set forth below.

(ii) Number of Shares. Each Grant issued to an Eligible Person shall state the number of Shares to which it pertains or which otherwise underlie the Grant and shall provide for the adjustment thereof in accordance with the provisions of Section 15 hereof.

(iii) Grants. Subject to the terms and conditions of the Plan and consistent with the Company's intention for the Committee to exercise the greatest permissible flexibility under Rule 16b-3 under the Exchange Act in awarding Grants, the Committee shall have the power:

(1) to determine from time to time the Grants to be issued to Eligible Persons under the Plan and to prescribe the terms and provisions (which need not be identical) of Grants issued under the Plan to such persons;

(2) to construe and interpret the Plan and the Grants thereunder and to establish, amend and revoke the rules, regulations and procedures established for the administration of the Plan. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, in any Agreement, or in any related agreements, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and determinations by the Committee in the exercise of this power shall be final and binding upon the Participating Companies and the Grantees;



Table of Contents

(3) to amend any outstanding Grant, subject to Sections 7(h) and 17, and to accelerate or extend the vesting or exercisability of any Grant (in compliance with Section 409A of the Code, as applicable) and to waive conditions or restrictions on any Grants, to the extent it shall deem appropriate;

(4) to delegate to a subcommittee of the Committee certain responsibilities under the Plan, including the authority to make Grants under the Plan other than to executive officers and members of the Board of Directors of the Company; and

(5) generally to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interests of the Company with respect to the Plan.

5. PARTICIPATION.

(a) Eligibility. Only Eligible Persons shall be eligible to receive Grants under the Plan.

(b) Limitation of Ownership. No Grants shall be issued under the Plan to any person who after such Grant would beneficially own more than 9.8% by value or number of shares, whichever is more restrictive, of the outstanding shares of Common Stock of the Company, or 9.8% by value or number of shares, whichever is more restrictive, of the outstanding capital stock of the Company, unless the foregoing restriction is expressly and specifically waived by action of the independent directors of the Board.

(c) Stock Ownership. For purposes of Section 5(b) above, in determining stock ownership a Grantee shall be considered as owning the stock owned, directly or indirectly, by or for his brothers, sisters, spouses, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by or for its stockholders, partners or beneficiaries. Stock with respect to which any person holds an Option shall be considered to be owned by such person.

(d) Outstanding Stock. For purposes of Section 5(b) above, outstanding shares shall include all stock actually issued and outstanding immediately after the issue of the Grant to the Grantee. With respect to the stock ownership of any Grantee, outstanding shares shall include shares authorized for issue under outstanding Options held by such Grantee, but not options held by any other person.

(e) Limit on Awards to Independent Directors. Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the grant date in accordance with applicable financial accounting rules) of all Grants made to any single independent director during any single fiscal year shall not exceed \$150,000.

6. STOCK. Subject to adjustments pursuant to Section 15, Grants (other than DERs) with respect to an aggregate of no more than 13,000,000 Shares may be granted under the Plan (all of which may be issued as Options). Subject to adjustments pursuant to Section 15, in the case of Grants intended to qualify for relief from the limitations of Section 162(m) of the Code, (i) the maximum number of Shares with respect to which any Options may be granted over any three-year period to any Grantee shall not exceed 1,500,000, and (ii) the maximum number of Shares that may underlie Grants, other than Grants of Options, over any three-year period to any Grantee shall not exceed 600,000. Notwithstanding the first sentence of this Section 6 the following Shares may be the subject of the issue of further Grants: (i) Shares that have been granted as Restricted Stock or that have been reserved for distribution in payment for Options, Phantom Shares or other equity-based awards under Section 12 but are later forfeited or for any other reason are not payable under the Plan; (ii) Shares as to which an Option is granted under the Plan that remains unexercised at the expiration, forfeiture or other termination of such Option; and (iii) Shares subject to awards that are settled in cash. Further, for the avoidance of doubt, the following Shares may not be subject to the issue of further Grants: (i) Shares tendered or withheld in payment of an Option exercise price; (ii) Shares tendered or withheld to satisfy minimum statutory withholding taxes; (iii) Shares not issued to an Optionee on settlement in Shares under Section 7(i); or (iv) Shares that have been repurchased by the Company using stock option exercise proceeds. Shares of Common Stock issued hereunder may consist, in whole or in part, of authorized

Table of Contents

and unissued shares, treasury shares or previously issued Shares under the Plan. The certificates for Shares issued hereunder may include any legend which the Committee deems appropriate to reflect any restrictions on transfer hereunder or under the Agreement, or as the Committee may otherwise deem appropriate. Notwithstanding the limitations above in this Section 6, except in the case of Grants intended to qualify for relief from the limitations of Section 162(m) of the Code, there shall be no limit on the number of Phantom Shares or DERs to the extent they are paid out in cash that may be granted under the Plan. If any Phantom Shares or DERs are paid out in cash, the underlying Shares may again be made the subject of Grants under the Plan, notwithstanding the first sentence of this Section 6. Notwithstanding the foregoing, and subject to applicable listing requirements, the number of Shares that may be granted under the Plan shall not be reduced by (x) Shares issued under awards granted in assumption, substitution or exchange for previously granted awards of a company acquired by the Company ( Substitute Awards ) and (y) available shares under a shareholder approved plan of an acquired company (as appropriately adjusted to reflect the transaction) and such shares shall be available for awards under the Plan.

7. TERMS AND CONDITIONS OF OPTIONS.

(a) Each Agreement with an Eligible Person shall state the Exercise Price. The Exercise Price for any Option shall not be less than the Fair Market Value on the date of Grant (except for Options granted as Substitute Awards, which shall have the exercise price as determined by the Committee).

(b) Medium and Time of Payment. Except as may otherwise be provided below, the Purchase Price for each Option granted to an Eligible Person shall be payable in full in United States dollars upon the exercise of the Option. In the event the Company determines that it is required to withhold taxes as a result of the exercise of an Option, as a condition to the exercise thereof, an Employee may be required to make arrangements satisfactory to the Company to enable it to satisfy such withholding requirements in accordance with Section 20. If the applicable Agreement so provides, or the Committee otherwise so permits, the Purchase Price may be paid in one or a combination of the following:

(i) by a certified or bank cashier's check;

(ii) by the surrender of shares of Common Stock in good form for transfer, owned by the person exercising the Option and having a Fair Market Value on the date of exercise equal to the Purchase Price, or in any combination of cash and shares of Common Stock, as long as the sum of the cash so paid and the Fair Market Value of the shares of Common Stock so surrendered equals the Purchase Price;

(iii) by cancellation of indebtedness owed by the Company to the Grantee;

(iv) subject to Section 17(e), by a loan or extension of credit from the Company evidenced by a full recourse promissory note executed by the Grantee. The interest rate and other terms and conditions of such note shall be determined by the Committee (in which case the Committee may require that the Grantee pledge his or her Shares to the Company for the purpose of securing the payment of such note, and in no event shall the stock certificate(s) representing such Shares be released to the Grantee until such note shall have been paid in full); or

(v) by any combination of such methods of payment or any other method acceptable to the Committee in its discretion.

Except in the case of Options exercised by certified or bank cashier's check, the Committee may impose such limitations and prohibitions on the exercise of Options as it deems appropriate, including, without limitation, any limitation or prohibition designed to avoid accounting consequences which may result from the use of Common Stock as payment upon exercise of an Option. Any fractional shares of Common Stock resulting from a Grantee's election that are accepted by the Company shall in the discretion of the Committee be paid in cash.

Table of Contents

(c) Term and Nontransferability of Grants and Options.

(i) Each Option under this Section 7 shall state the time or times which all or part thereof becomes exercisable, subject to the following restrictions.

(ii) No Option shall be exercisable except by the Grantee or a transferee permitted hereunder.

(iii) No Option shall be exercisable more than ten (10) years after the grant thereof.

(iv) No Option shall be granted in consideration for and shall not be conditioned upon delivery of Shares to the Company in payment of the exercise price and/or tax withholding obligation under any other employee stock option.

(v) No Option shall be assignable or transferable, except by will or the laws of descent and distribution of the state wherein the Grantee is domiciled at the time of his death; provided, however, that the Committee may (but need not) permit other transfers, where the Committee concludes that such transferability (i) does not result in accelerated taxation, (ii) does not cause any Option intended to be an Incentive Stock Option to fail to be described in Section 422(b) of the Code and (iii) is otherwise appropriate and desirable. Such transfers must be made without consideration and only to family members (or pursuant to a qualified domestic relations order in the event of divorce of an Optionee) or to trusts or other entities for the benefit of family members. The Committee may also allow transfers to nonprofit organizations exempt from tax under Section 501(c)(3) of the Code.

(vi) No Option shall be exercisable until such time as set forth in the applicable Agreement (but in no event after the expiration of such Grant).

(vii) The Committee may not modify, extend or renew any Option granted to any Eligible Person unless such modification, extension or renewal shall satisfy any and all applicable requirements of Rule 16b-3 under the Exchange Act. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair any rights or obligations under any Option previously granted.

(d) Termination of Service, Other Than by Death, Retirement or Disability. Unless otherwise provided in the applicable Agreement, upon any Termination of Service for any reason other than his or her death, Retirement or Disability, an Optionee shall have the right, subject to the restrictions of Section 4(c) above, to exercise his or her Option at any time within three months after Termination of Service, but only to the extent that, at the date of Termination of Service, the Optionee's right to exercise such Option had accrued pursuant to the terms of the applicable Agreement and had not previously been exercised; provided, however, that, unless otherwise provided in the applicable Agreement, if there occurs a Termination of Service by a Participating Company for Cause or a Termination of Service by the Optionee (other than on account of death, Retirement or Disability), any Option not exercised in full prior to such termination shall be canceled.



(e) Death of Optionee. Unless otherwise provided in the applicable Agreement, if the Optionee of an Option dies while an Eligible Person or within three months after any Termination of Service other than for Cause or a Termination of Service by the Optionee (other than on account of death, Retirement or Disability), and has not fully exercised the Option, then the Option may be exercised in full, subject to the restrictions of Section 4(c) above, at any time within 12 months after the Optionee's death, by the Successor of the Optionee, but only to the extent that, at the date of death, the Optionee's right to exercise such Option had accrued and had not been forfeited pursuant to the terms of the Agreement and had not previously been exercised.

(f) Disability or Retirement of Optionee. Unless otherwise provided in the Agreement, upon any Termination of Service for reason of his or her Disability or Retirement, an Optionee shall have the right, subject to the restrictions of Section 4(c) above, to exercise the Option at any time within 24 months after Termination of

Table of Contents

Service, but only to the extent that, at the date of Termination of Service, the Optionee's right to exercise such Option had accrued pursuant to the terms of the applicable Agreement and had not previously been exercised.

(g) **Rights as a Stockholder.** An Optionee, a Successor of the Optionee, or the holder of a DER shall have no rights as a stockholder with respect to any Shares covered by his or her Grant until, in the case of an Optionee, the date of the issuance of a stock certificate for such Shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Section 15.

(h) **Modification, Extension and Renewal of Option.** Within the limitations of the Plan, and only with respect to Options granted to Eligible Persons, the Committee may modify, extend or renew outstanding Options or accept the cancellation of outstanding Options (to the extent not previously exercised) for the granting of new Options in substitution therefor (but unless there is stockholder approval, not including any reduction in exercise price or cancellation of an Option in exchange for an Option with a lower exercise price or a cancellation of an Option for cash or another Grant if the exercise price of the Option is greater than the Fair Market Value of the Shares subject to the Option at the time of cancellation, other than in conjunction with a Change of Control or other anti-dilution adjustments permitted under Section 15). The Committee may modify, extend or renew any Option granted to any Eligible Person, unless such modification, extension or renewal would not satisfy any applicable requirements of Rule 16b-3 under the Exchange Act. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair any rights or obligations under any Option previously granted.

(i) **Alternative Settlement of Options.** The Committee, in its discretion, may (taking into account, without limitation, the application of Section 409A of the Code, as the Committee may deem appropriate) also permit the Optionee to elect to exercise an Option by receiving Shares, cash or a combination thereof, in the discretion of the Committee, with an aggregate Fair Market Value (or, to the extent of payment in cash, in an amount) equal to the excess of the Fair Market Value of the Shares with respect to which the Option is being exercised over the aggregate Purchase Price, as determined as of the day the Option is exercised.

(j) **Deferral.** The Committee may establish a program (taking into account, without limitation, the application of Section 409A of the Code, as the Committee may deem appropriate) under which Optionees will have Phantom Shares subject to Section 10 credited upon their exercise of Options, rather than receiving Shares at that time.

(k) **Other Provisions.** The Agreement authorized under the Plan may contain such other provisions not inconsistent with the terms of the Plan (including, without limitation, restrictions upon the exercise of the Option) as the Committee shall deem advisable.

8. SPECIAL RULES FOR INCENTIVE STOCK OPTIONS.

(a) In the case of Incentive Stock Options granted hereunder, the aggregate Fair Market Value (determined as of the date of the Grant thereof) of the Shares with respect to which Incentive Stock Options become exercisable by any Optionee for the first time during any calendar year (under the Plan and all other plans) required to be taken into account under Section 422(d) of the Code shall not exceed \$100,000.

(b) In the case of an individual described in Section 422(b)(6) of the Code (relating to certain 10% owners), the Exercise Price with respect to an Incentive Stock Option shall not be less than 110% of the Fair Market Value of a Share on the day the Option is granted and the term of an Incentive Stock Option shall be no more than five years from the date of grant.

(c) If Shares acquired upon exercise of an Incentive Stock Option are disposed of in a disqualifying disposition within the meaning of Section 422 of the Code by an Optionee prior to the expiration of either two years from the date of grant of such Option or one year from the transfer of Shares to the Optionee pursuant to the exercise of such Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Optionee shall notify the Company in writing as soon as practicable thereafter of the date and terms of such

Table of Contents

disposition and, if the Company thereupon has a tax-withholding obligation, shall pay to the Company an amount equal to any withholding tax the Company is required to pay as a result of the disqualifying disposition.

9. PROVISIONS APPLICABLE TO RESTRICTED STOCK.

(a) Vesting Periods. In connection with the grant of Restricted Stock, whether or not Performance Goals apply thereto, the Committee shall establish one or more vesting periods with respect to the shares of Restricted Stock granted, the length of which shall be determined in the discretion of the Committee. Subject to the provisions of this Section 9, the applicable Agreement and the other provisions of the Plan, restrictions on Restricted Stock shall lapse if the Grantee satisfies all applicable employment or other service requirements through the end of the applicable vesting period.

(b) Grant of Restricted Stock. Subject to the other terms of the Plan, the Committee may, in its discretion as reflected by the terms of the applicable Agreement: (i) authorize the granting of Restricted Stock to Eligible Persons; (ii) provide a specified purchase price for the Restricted Stock (whether or not the payment of a purchase price is required by any state law applicable to the Company); (iii) determine the restrictions applicable to Restricted Stock and (iv) determine or impose other conditions to the grant of Restricted Stock under the Plan as it may deem appropriate.

(c) Certificates.

(i) Each Grantee of Restricted Stock shall be issued a stock certificate in respect of Shares of Restricted Stock awarded under the Plan or an appropriate book entry with respect to such Shares shall be made in the name of the Grantee. Without limiting the generality of Section 6, in addition to any legend that might otherwise be required by the Board or the Company's charter, bylaws or other applicable documents, the certificates for Shares of Restricted Stock issued hereunder may include any legend which the Committee deems appropriate to reflect any restrictions on transfer hereunder or under the applicable Agreement, or as the Committee may otherwise deem appropriate, and, without limiting the generality of the foregoing, shall bear a legend referring to the terms, conditions, and restrictions applicable to such Grant, substantially in the following form:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE TWO HARBORS RESTATED 2009 EQUITY INCENTIVE PLAN, AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND TWO HARBORS INVESTMENT CORP. COPIES OF SUCH PLAN AND AWARD AGREEMENT ARE ON FILE IN THE OFFICES OF TWO HARBORS INVESTMENT CORP. AT 601 CARLSON PARKWAY, SUITE 1400, MINNETONKA, MN, 55305.

(ii) The Committee shall require that the stock certificates evidencing such Shares be held in custody by the Company until the restrictions hereunder shall have lapsed and that, as a condition of any grant of Restricted Stock, the Grantee shall have delivered a stock power, endorsed in blank, relating to the stock covered by such Grant. If and when such restrictions so lapse, the stock certificates shall be delivered by the Company to the Grantee or his or her designee as provided in Section 9(d).

(d) Restrictions and Conditions. Unless otherwise provided by the Committee in an Agreement, the Shares of Restricted Stock awarded pursuant to the Plan shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of the Plan and the applicable Agreement, during a period commencing with the date of such Grant and ending on the date the period of forfeiture with respect to such Shares lapses, the Grantee shall not be permitted voluntarily or

A - 10

---

Table of Contents

involuntarily to sell, transfer, pledge, anticipate, alienate, encumber or assign Shares of Restricted Stock awarded under the Plan (or have such Shares attached or garnished). Subject to the provisions of the applicable Agreement and clauses (iii) and (iv) below, the period of forfeiture with respect to Shares granted hereunder shall lapse as provided in the applicable Agreement. Notwithstanding the foregoing, unless otherwise expressly provided by the Committee, the period of forfeiture with respect to such Shares shall only lapse as to whole Shares.

(ii) Except as provided in the foregoing clause (i) or in Section 15, the Grantee shall have, in respect of the Shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the Shares; provided, however, that cash dividends on such Shares shall in all cases in which the vesting of Shares of Restricted Stock is based on the achievement of performance goals, and in other cases unless otherwise provided by the Committee in the applicable Agreement, be held by the Company (unsegregated as a part of its general assets) until the period of forfeiture lapses (and forfeited if the underlying Shares are forfeited), and paid over to the Grantee as soon as practicable after such period lapses (if not forfeited). Certificates for Shares (not subject to restrictions hereunder) shall be delivered to the Grantee or his or her designee (or where permitted, transferee) promptly after, and only after, the period of forfeiture shall lapse without forfeiture in respect of such Shares of Restricted Stock.

(iii) Termination of Service, Except by Death, Retirement or Disability. Unless otherwise provided in the applicable Agreement, and subject to clause (iv) below, if the Grantee has a Termination of Service for Cause or by the Grantee for any reason other than his or her death, Retirement or Disability, during the applicable period of forfeiture, then (A) all Restricted Stock still subject to restriction shall thereupon, and with no further action, be forfeited by the Grantee, and (B) the Company shall pay to the Grantee as soon as practicable (and in no event more than 30 days) after such termination an amount equal to the lesser of (x) the amount paid by the Grantee for such forfeited Restricted Stock as contemplated by Section 9(b), and (y) the Fair Market Value on the date of termination of the forfeited Restricted Stock.

(iv) Death, Disability or Retirement of Grantee. Unless otherwise provided in the applicable Agreement, in the event the Grantee has a Termination of Service on account of his or her death, Disability or Retirement, or the Grantee has a Termination of Service for any reason other than Cause, during the applicable period of forfeiture, then restrictions under the Plan will immediately lapse on all Restricted Stock granted to the applicable Grantee.

10. PROVISIONS APPLICABLE TO PHANTOM SHARES.

(a) Grant of Phantom Shares. Subject to the other terms of the Plan, the Committee shall, in its discretion as reflected by the terms of the applicable Agreement: (i) authorize the Granting of Phantom Shares to Eligible Persons and (ii) determine or impose other conditions to the grant of Phantom Shares under the Plan as it may deem appropriate.

(b) Term. The Committee may provide in an Agreement that any particular Phantom Share shall expire at the end of a specified term.

(c) Vesting.

(i) Subject to the provisions of the applicable Agreement and Section 10(c)(ii), Phantom Shares shall vest as provided in the applicable Agreement.

A - 11

---

Table of Contents

(ii) Unless otherwise determined by the Committee in an applicable Agreement, the Phantom Shares granted pursuant to the Plan shall be subject to the following vesting conditions:

(1) Termination of Service for Cause. Unless otherwise provided in the applicable Agreement and subject to clause (2) below, if the Grantee has a Termination of Service for Cause, all of the Grantee's Phantom Shares (whether or not such Phantom Shares are otherwise vested) shall thereupon, and with no further action, be forfeited by the Grantee and cease to be outstanding, and no payments shall be made with respect to such forfeited Phantom Shares.

(2) Termination of Service for Death, Disability or Retirement of Grantee or by the Company for Any Reason Other than Cause. Unless otherwise provided in the applicable Agreement, in the event the Grantee has a Termination of Service on account of his or her death, Disability or Retirement, or the Grantee has a Termination of Service for any reason other than Cause, all outstanding Phantom Shares granted to such Grantee shall become immediately vested.

(3) Except as contemplated above, in the event that a Grantee has a Termination of Service, any and all of the Grantee's Phantom Shares which have not vested prior to or as of such termination shall thereupon, and with no further action, be forfeited and cease to be outstanding, and the Grantee's vested Phantom Shares shall be settled as set forth in Section 10(d).

(d) Settlement of Phantom Shares.

(i) Each vested and outstanding Phantom Share shall be settled by the transfer to the Grantee of one Share; provided, however, that, the Committee at the time of grant (or, in the appropriate case, as determined by the Committee, thereafter) may provide that a Phantom Share may be settled (A) in cash at the applicable Phantom Share Value, (B) in cash or by transfer of Shares as elected by the Grantee in accordance with procedures established by the Committee or (C) in cash or by transfer of Shares as elected by the Company.

(ii) Each Phantom Share shall be settled with a single-sum payment by the Company; provided, however, that, with respect to Phantom Shares of a Grantee which have a common Settlement Date (as defined below), the Committee may permit the Grantee to elect in accordance with procedures established by the Committee (taking into account, without limitation, Section 409A of the Code, as the Committee may deem appropriate) to receive installment payments over a period not to exceed 10 years. If the Grantee's Phantom Shares are paid out in installment payments, such installment payments shall be treated as a series of separate payments for purposes of Section 409A of the Code.

(iii) (1) The settlement date with respect to a Grantee is the first day of the month to follow the Grantee's Termination of Service (Settlement Date); provided, however, that a Grantee may elect, in accordance with procedures to be adopted by the Committee, that such Settlement Date will be deferred as elected by the Grantee to a time permitted by the Committee under procedures to be established by the Committee. Notwithstanding the prior sentence, all initial elections to defer the Settlement Date shall be made in accordance with the requirements of Section 409A of the Code. In addition, unless otherwise determined by the Committee, any subsequent elections under this Section 10(d)(iii)(1) must, except as may otherwise be permitted under the rules applicable under Section 409A of the Code, (A) not be effective for at least one year after they are made, or, in the case of payments to commence at a specific time, be made at least one year before the first scheduled payment and (B) defer





Table of Contents

the commencement of distributions (and each affected distribution) for at least five years.

(2) Notwithstanding Section 10(d)(iii)(1), the Committee may provide that distributions of Phantom Shares can be elected at any time in those cases in which the Phantom Share Value is determined by reference to Fair Market Value to the extent in excess of a base value, rather than by reference to unreduced Fair Market Value.

(3) Notwithstanding the foregoing, the Settlement Date, if not earlier pursuant to this Section 10(d)(iii), is the date of the Grantee's death.

(iv) Notwithstanding any other provision of the Plan, a Grantee may receive any amounts to be paid in installments as provided in Section 10(d)(ii) or deferred by the Grantee as provided in Section 10(d)(iii) in the event of an Unforeseeable Emergency. For these purposes, an Unforeseeable Emergency, as determined by the Committee in its sole discretion, is a severe financial hardship to the Grantee resulting from a sudden and unexpected illness or accident of the Grantee or dependent, as defined in Section 152(a) of the Code, of the Grantee, loss of the Grantee's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Grantee. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved:

(1) through reimbursement or compensation by insurance or otherwise;

(2) by liquidation of the Grantee's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or

(3) by future cessation of the making of additional deferrals under Section 10(d)(ii) and (iii).

Without limitation, the need to send a Grantee's child to college or the desire to purchase a home shall not constitute an Unforeseeable Emergency. Distributions of amounts because of an Unforeseeable Emergency shall be permitted to the extent reasonably needed to satisfy the emergency need.

(e) Other Phantom Share Provisions.

(i) Rights to payments with respect to Phantom Shares granted under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, garnishment, levy, execution, or other legal or equitable process, either voluntary or involuntary; and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish, or levy or execute on any right to payments or other benefits payable hereunder, shall be void.

(ii) A Grantee may designate in writing, on forms to be prescribed by the Committee, a beneficiary or beneficiaries to receive any payments payable after his or her death and may amend or revoke such designation at any time. If no beneficiary designation is in effect at the time of a Grantee's death, payments hereunder shall be made to the Grantee's estate. If a Grantee with a vested Phantom Share dies, such Phantom Share shall be settled and the Phantom Share Value in respect of such Phantom Shares paid, and any payments deferred pursuant to an election under Section 10(d)(iii) shall be accelerated

Table of Contents

and paid, as soon as practicable (but no later than 60 days) after the date of death to such Grantee's beneficiary or estate, as applicable.

(iii) The Committee may establish a program (taking into account, without limitation, the possible application of Section 409A of the Code, as the Committee may deem appropriate) under which distributions with respect to Phantom Shares may be deferred for periods in addition to those otherwise contemplated by the foregoing provisions of this Section 10. Such program may include, without limitation, provisions for the crediting of earnings and losses on unpaid amounts and, if permitted by the Committee, provisions under which Grantees may select from among hypothetical investment alternatives for such deferred amounts in accordance with procedures established by the Committee.

(iv) Notwithstanding any other provision of this Section 10, any fractional Phantom Share will be paid out in cash at the Phantom Share Value as of the Settlement Date.

(v) No Phantom Share shall give any Grantee any rights with respect to Shares or any ownership interest in the Company. Except as may be provided in accordance with Section 11, no provision of the Plan shall be interpreted to confer upon any Grantee of a Phantom Share any voting, dividend or derivative or other similar rights with respect to any Phantom Share.

11. PROVISIONS APPLICABLE TO DIVIDEND EQUIVALENT RIGHTS.

(a) Grant of DERs. Subject to the other terms of the Plan, the Committee shall, in its discretion as reflected by the terms of the Agreements, authorize the granting of DERs to Eligible Persons based on the dividends declared on Common Stock, to be credited as of the dividend payment dates, during the period between the date a Grant is issued, and the date such Grant is exercised, vests or expires, as determined by the Committee. Such DERs shall be converted to cash or additional Shares by such formula and at such time and subject to such limitation as may be determined by the Committee. With respect to DERs granted with respect to Options intended to be qualified performance-based compensation for purposes of Section 162(m) of the Code, such DERs shall be payable regardless of whether such Option is exercised. If a DER is granted in respect of another Grant hereunder, then, unless otherwise stated in the Agreement, or, in the appropriate case, as determined by the Committee, in no event shall the DER be in effect for a period beyond the time during which the applicable related portion of the underlying Grant has been exercised or otherwise settled, or has expired, been forfeited or otherwise lapsed, as applicable.

(b) Certain Terms.

(i) The term of a DER shall be set by the Committee in its discretion.

(ii) Payment of the amount determined in accordance with Section 11(a) shall be in cash, in Common Stock or a combination of the both, as determined by the Committee at the time of grant.

(c) Other Types of DERs. The Committee may establish a program under which DERs of a type whether or not described in the foregoing provisions of this Section 11 may be granted to Eligible Persons. For example, without limitation, the Committee may grant a DER in respect of each Share subject to an Option or with respect to a Phantom Share, which right would consist of the right (subject to Section 11(d)) to receive a cash payment in an amount equal to the dividend distributions paid on a Share from time to time. Provided, however, that in no event may a DER be paid with respect to Phantom Shares, the vesting of which is based on the achievement of performance goals, before such performance goals are met. Such DERs shall be held by the Company (unsegregated as part of its general assets) until the period of forfeiture lapses (and forfeited if the Phantom Shares are forfeited), and paid over to the Grantee as soon as practicable after such period lapses (if not forfeited).

Table of Contents

(d) Deferral.

(i) The Committee may (taking into account, without limitation, the possible application of Section 409A of the Code, as the Committee may deem appropriate) establish a program under which Grantees (i) will have Phantom Shares credited, subject to the terms of Sections 10(d) and 10(e) as though directly applicable with respect thereto, upon the granting of DERs, or (ii) will have payments with respect to DERs deferred.

(ii) The Committee may establish a program under which distributions with respect to DERs may be deferred. Such program may include, without limitation, provisions for the crediting of earnings and losses on unpaid amounts, and, if permitted by the Committee, provisions under which Grantees may select from among hypothetical investment alternatives for such deferred amounts in accordance with procedures established by the Committee.

12. OTHER EQUITY-BASED AWARDS. The Board shall have the right to issue other Grants based upon the Common Stock having such terms and conditions as the Board may determine, including, without limitation, the grant of Shares without conditions (including the grant of Shares without conditions to independent directors of the Company), the grant of Shares based upon certain conditions, grants of restricted stock units and the grant of securities convertible into Common Stock. In addition, the Board shall have the right to expand the types of Grants to include the grant of interests (which may be expressed as units or otherwise) in Two Harbors Operating Company LLC, subject to the terms and conditions of the operating agreement of Two Harbors Operating Company LLC, as amended from time to time, and such other terms and conditions as may be determined by the Board at the time of such expansion.

13. PERFORMANCE GOALS. The Committee, in its discretion, shall in the case of Grants (including, in particular, Grants other than Options) intended to qualify for an exception from the limitation imposed by Section 162(m) of the Code ( Performance-Based Grants ) (i) establish one or more performance goals ( Performance Goals ) as a precondition to the issue of Grants, and (ii) provide, in connection with the establishment of the Performance Goals, for predetermined Grants to those Grantees (who continue to meet all applicable eligibility requirements) with respect to whom the applicable Performance Goals are satisfied. The Performance Goals shall be based upon the criteria set forth in Exhibit A hereto which is hereby incorporated herein by reference as though set forth in full, and which may be updated and amended from time to time, as appropriate, in the discretion of the Committee. The Performance Goals shall be established in a timely fashion such that they are considered pre-established for purposes of the rules governing performance-based compensation under Section 162(m) of the Code. Prior to the vesting and delivery of performance-based Restricted Stock, Phantom Shares, DERs and other equity-based awards hereunder, the Committee shall have certified that any applicable Performance Goals, and other material terms of the Grant, have been satisfied. Performance Goals which do not satisfy the foregoing provisions of this Section 13 may be established by the Committee with respect to Grants not intended to qualify for an exception from the limitations imposed by Section 162(m) of the Code.

14. TERM OF PLAN. Grants may be granted pursuant to the Plan until the expiration of 10 years from the effective date of this restated Plan.

15. RECAPITALIZATION AND CHANGES OF CONTROL.

(a) Subject to any required action by stockholders and to the specific provisions of Section 16, if (i) the Company shall at any time be involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of all or substantially all of the assets or stock of the Company or a transaction similar thereto, (ii) any stock dividend, stock split, reverse stock split, stock combination, reclassification, recapitalization or other similar change in the capital structure of the Company, or any extraordinary dividend or distribution to holders of Common Stock other than ordinary cash dividends, shall occur or (iii) any other event shall occur which in the judgment of the Committee necessitates action by way of adjusting the terms of the outstanding Grants, then:

Table of Contents

(i) the maximum aggregate number of Shares which may be made subject to Options and DERs under the Plan, the maximum aggregate number and kind of Shares of Restricted Stock that may be granted under the Plan, the maximum aggregate number of Phantom Shares and other Grants which may be granted under the Plan, and the maximum number of Shares that may be granted in any one year to any Grantee under Section 6 may be appropriately adjusted by the Committee in its discretion; and

(ii) the Committee shall take any such action as in its discretion shall be necessary to maintain each Grantee's rights hereunder (including under their applicable Agreements) so that they are, in their respective Options, Phantom Shares and DERs (and, as appropriate, other Grants under Section 12), substantially proportionate to the rights existing in such Options, Phantom Shares and DERs (and other Grants under Section 12) prior to such event, including, without limitation, adjustments in (A) the number of Options, Phantom Shares and DERs (and other Grants under Section 12) granted, (B) the number and kind of shares or other property to be distributed in respect of Options, Phantom Shares and DERs (and other Grants under Section 12, as applicable), (C) the Exercise Price, Purchase Price and Phantom Share Value, and (D) performance-based criteria established in connection with Grants (to the extent consistent with Section 162(m) of the Code, as applicable); provided that, in the discretion of the Committee, the foregoing clause (D) may also be applied in the case of any event relating to a Subsidiary if the event would have been covered under this Section 15(a) had the event related to the Company.

To the extent that such action shall include an increase or decrease in the number of Shares (or units of other property then available) subject to all outstanding Grants, the number of Shares (or units) available under Section 6 above shall be increased or decreased, as the case may be, proportionately.

(b) Any Shares or other securities distributed to a Grantee with respect to Restricted Stock or otherwise issued in substitution of Restricted Stock pursuant to this Section 15 shall be subject to the restrictions and requirements imposed by Section 9, including depositing the certificates therefor with the Company together with a stock power and bearing a legend as provided in Section 9(c)(i).

(c) If the Company shall be consolidated or merged with another corporation or other entity, each Grantee who has received Restricted Stock that is then subject to restrictions imposed by Section 9(d) may be required to deposit with the successor corporation the certificates or book entry shares for the stock or securities or the other property that the Grantee is entitled to receive by reason of ownership of Restricted Stock in a manner consistent with Section 9(c)(ii), and such stock, securities or other property shall become subject to the restrictions and requirements imposed by Section 9(d), and the certificates therefor or other evidence thereof shall bear a legend similar in form and substance to the legend set forth in Section 9(c)(i).

(d) The judgment of the Committee with respect to any matter referred to in this Section 15 shall be conclusive and binding upon each Grantee without the need for any amendment to the Plan.

(e) Subject to any required action by stockholders, if the Company is the surviving corporation in any merger or consolidation, the rights under any outstanding Grant shall pertain and apply to the securities to which a holder of the number of Shares subject to the Grant would have been entitled. In the event of a merger or consolidation that does not constitute a Change of Control and in which the Company is not the surviving corporation, the date of exercisability of each outstanding Option and settling of each Phantom Share or, as applicable, other equity-based Grant under Section 12, shall be accelerated to a date prior to such merger or consolidation, unless the agreement of merger or consolidation provides for the assumption of the Grant by the successor to the Company.



(f) To the extent that the foregoing adjustment related to securities of the Company, such adjustments shall be made by the Committee, whose determination shall be conclusive and binding on all persons.

A - 16

---

Table of Contents

(g) Except as expressly provided in this Section 15, a Grantee shall have no rights by reason of subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to a Grant or the Exercise Price of Shares subject to an Option.

(h) Grants made pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business assets.

(i) Unless otherwise provided in the Agreement, upon the occurrence of a Change of Control:

(i) The Committee as constituted immediately before the Change of Control may make such adjustments as it, in its discretion, determines are necessary or appropriate in light of the Change of Control (including, without limitation, the substitution of stock other than stock of the Company as the stock optioned hereunder, and the acceleration of the exercisability of the Options and settling of each Phantom Share or, as applicable, other Grant under Section 12) with respect to such Grantees whose employment is terminated other than for cause or good reason as defined by the Committee, within twenty-four (24) months of the Change of Control, provided that the Committee determines that such adjustments do not have a substantial adverse economic impact on the Grantee as determined at the time of the adjustments.

(ii) All restrictions and conditions on each DER shall automatically lapse and all Grants under the Plan shall be deemed fully vested with respect to such Grantees whose employment is terminated other than for cause or good reason as defined by the Committee, within twenty-four (24) months of the Change of Control.

(iii) Notwithstanding the provisions of Section 10 (taking into account, without limitation, the application of Section 409A of the Code, as the Committee may deem appropriate), the Settlement Date for Phantom Shares shall be the date of such Change of Control and all amounts due with respect to Phantom Shares to a Grantee hereunder shall be paid as soon as practicable (but in no event more than 30 days) after such Change of Control, unless such Grantee elects otherwise in accordance with procedures established by the Committee.

(j) Change of Control shall mean the occurrence of any one of the following events:

(i) any person, including a group, (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act, but excluding the Company or the Manager, any entity controlling, controlled by or under common control with the Company or the Manager, any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or the Manager or any such entity, and, with respect to any particular Eligible Employee, the Eligible Employee and any group, (as such term is used in Section 13(d)(3) of the Exchange Act) of which the Eligible Employee is a member), is or becomes the beneficial owner, (as defined in Rule 13(d)(3) under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of either (A) the combined voting power of the Company's then outstanding securities or (B) the then outstanding Shares; or

(ii) members of the Board at the beginning of any consecutive 24-calendar-month period (the Incumbent Directors ) cease for any reason other than due to death to constitute at least a majority of the members of the Board; provided that any Director whose election, or

A - 17

---

Table of Contents

nomination for election by the Company's stockholders, was approved or ratified by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such 24-calendar-month period, shall be deemed to be an Incumbent Director; provided, however, that any individual who was initially elected as a director of the Company as a result of an actual or threatened election contest, as such terms are used in Rule 14a-12 (as proposed) of Regulation 14A promulgated under the Act, or any other actual or threatened solicitation of proxies or consents by or on behalf of any person or entity other than the Board, shall not be deemed to be an Incumbent Director; or

(iii) there shall occur (A) the consummation of any consolidation or merger of the Company or any Subsidiary where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, shares representing in the aggregate 50% or more of the voting securities of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any) in substantially the same proportion as such stockholders' ownership immediately prior to the consolidation or merger, (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company or (C) consummation of a stockholder approved plan for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, no event or condition described in clauses (i) through (iii) above shall constitute a Change of Control if it results from a transaction between the Company and the Manager, or an affiliate of the Manager.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of Shares or other voting securities outstanding, increases (x) the proportionate number of Shares beneficially owned by any person to 50% or more of the Shares then outstanding or (y) the proportionate voting power represented by the voting securities beneficially owned by any person to 50% or more of the combined voting power of all then outstanding voting securities; provided, however, that, if any person referred to in clause (x) or (y) of this sentence shall thereafter become the beneficial owner of any additional Shares or other voting securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a Change of Control shall be deemed to have occurred for purposes of this subsection (j).

Notwithstanding the foregoing, no event or condition shall constitute a Change of Control to the extent that, if it were, a 20% tax would be imposed upon or with respect to any Grant under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Change of Control to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax.

16. **EFFECT OF CERTAIN TRANSACTIONS.** In the case of (i) the dissolution or liquidation of the Company, or (ii) upon the occurrence of a Change in Control, the Plan and the Grants issued hereunder shall terminate upon the effectiveness of any such transaction or event, unless provision is made in connection with such transaction for the assumption of Grants theretofore granted, or the substitution for such Grants of new Grants, by the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and the per share exercise prices, as provided in Section 15. In the event of such termination, all outstanding Options and Grants shall be exercisable in full for at least fifteen days prior to the date of such termination whether or not otherwise exercisable during such period.

Table of Contents

17. SECURITIES LAW REQUIREMENTS.

(a) **Legality of Issuance.** The issuance of any Shares pursuant to Grants under the Plan and the issuance of any Grant shall be contingent upon the following:

(i) the obligation of the Company to sell Shares with respect to Grants issued under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee;

(ii) the Committee may make such changes to the Plan as may be necessary or appropriate to comply with the rules and regulations of any government authority or to obtain tax benefits applicable to stock options; and

(iii) each grant of Options, Restricted Stock, Phantom Shares (or issuance of Shares in respect thereof) or DERs (or issuance of Shares in respect thereof), or other Grant under Section 12 (or issuance of Shares in respect thereof), is subject to the requirement that, if at any time the Committee determines, in its discretion, that the listing, registration or qualification of Shares issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of Options, Shares of Restricted Stock, Phantom Shares, DERs, other Grants or other Shares, no payment shall be made, or Phantom Shares or Shares issued or grant of Restricted Stock or other Grant made, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions in a manner acceptable to the Committee.

(b) **Restrictions on Transfer.** Regardless of whether the offering and sale of Shares under the Plan has been registered under the Act or has been registered or qualified under the securities laws of any state, the Company may impose restrictions on the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable in order to achieve compliance with good practices, the provisions of the Act, the securities laws of any state or any other law. In the event that the sale of Shares under the Plan is not registered under the Act but an exemption is available which requires an investment representation or other representation, each Grantee shall be required to represent that such Shares are being acquired for investment, and not with a view to the sale or distribution thereof, and to make such other representations as are deemed necessary or appropriate by the Company and its counsel. Any determination by the Company and its counsel in connection with any of the matters set forth in this Section 17 shall be conclusive and binding on all persons. Without limiting the generality of Section 6, stock certificates evidencing Shares acquired under the Plan pursuant to an unregistered transaction shall bear a restrictive legend, substantially in the following form, and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law:

THE SALE OF THE SECURITIES REPRESENTED HEREBY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE ACT ). ANY TRANSFER OF SUCH SECURITIES WILL BE INVALID UNLESS A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO SUCH TRANSFER OR IN THE OPINION OF COUNSEL FOR THE ISSUER SUCH REGISTRATION IS UNNECESSARY IN ORDER FOR SUCH TRANSFER TO COMPLY WITH THE ACT.

(c) Registration or Qualification of Securities. The Company may, but shall not be obligated to, register or qualify the issuance of Grants and/or the sale of Shares under the Act or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the issuance of Grants or the sale of Shares under the Plan to comply with any law.

Table of Contents

(d) Exchange of Certificates. If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Shares sold under the Plan is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Shares but lacking such legend.

(e) Certain Loans. Notwithstanding any other provision of the Plan, the Company shall not be required to take or permit any action under the Plan or any Agreement which, in the good-faith determination of the Company, would result in a material risk of a violation by the Company of Section 13(k) of the Exchange Act.

18. AMENDMENT OF THE PLAN. The Board may from time to time, with respect to any Shares at the time not subject to Grants, suspend or discontinue the Plan or revise or amend it in any respect whatsoever. The Board may amend the Plan as it shall deem advisable, except that no amendment may adversely affect a Grantee with respect to Grants previously granted unless such amendments are in connection with compliance with applicable laws; provided, however, that the Plan may not be amended without stockholder approval (a) to increase the total number of Shares that may be subject to Awards set forth in Section 6 (other than through an adjustment as provided otherwise in the Plan), (b) to change the class of Eligible Persons, (c) to provide for the cancellation of any outstanding awards under the Plan having an exercise price per Share greater than the then Fair Market Value of a Share ( Underwater Awards ) and the grant in substitution therefore of new awards having a lower exercise price, other new awards or payments in cash, (d) to reprice any awards under the Plan, including Underwater Awards, or to take any other action precluded under Section 7(h) from being taken without shareholder approval, or (e) in any other manner that in the absence of stockholder approval would cause the Plan to fail to comply with any applicable legal requirement or applicable exchange or similar state law requirements.

19. APPLICATION OF FUNDS. The proceeds received by the Company from the sale of Common Stock pursuant to the exercise of an Option, the sale of Restricted Stock or in connection with other Grants under the Plan will be used for general corporate purposes.

20. TAX WITHHOLDING. Each Grantee shall, no later than the date as of which the value of any Grant first becomes includable in the gross income of the Grantee for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Company regarding payment of any federal, state or local taxes of any kind that are required by law to be withheld with respect to such income. A Grantee may elect to have such tax withholding satisfied, in whole or in part, by (i) authorizing the Company to withhold a number of Shares to be issued pursuant to a Grant equal to the Fair Market Value as of the date withholding is effected that would satisfy the minimum statutory withholding amount due, (ii) transferring to the Company Shares owned by the Grantee with a Fair Market Value equal to the amount of the required minimum statutory withholding tax, or (iii) in the case of a Grantee who is an Employee of the Company at the time such withholding is effected, by withholding from the Grantee's cash compensation. Notwithstanding anything contained in the Plan to the contrary, the Grantee's satisfaction of any tax-withholding requirements imposed by the Committee shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the Grantee, and the failure of the Grantee to satisfy such requirements with respect to a Grant shall cause such Grant to be forfeited.

21. NOTICES. All notices under the Plan shall be in writing, and if to the Company, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Board; and if to the Grantee, shall be delivered personally or mailed to the Grantee at the address appearing in the records of the Participating Company. Such addresses may be changed at any time by written notice to the other party given in accordance with this Section 21.

22. RIGHTS TO EMPLOYMENT OR OTHER SERVICE. Nothing in the Plan or in any Grant issued pursuant to the Plan shall confer on any individual any right to continue in the employ or other service of the Participating Company (if applicable) or interfere in any way with the right of the Participating Company and its stockholders to terminate the individual's employment or other service at any time.

23. EXCULPATION AND INDEMNIFICATION. To the maximum extent permitted by law, the Company shall indemnify and hold harmless the members of the Board and the members of the Committee from and against any and all liabilities, costs and expenses incurred by such persons as a result of any act or omission to act in



Table of Contents

connection with the performance of such person's duties, responsibilities and obligations under the Plan, other than such liabilities, costs and expenses as may result from the gross negligence, bad faith, willful misconduct or criminal acts of such persons.

24. **FORFEITURE AND CLAWBACK.** All Grants of equity-based incentives issued pursuant to the Plan shall be subject to forfeiture as required under (a) Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the related rules of the Securities and Exchange Commission or the applicable listing exchange or (b) such clawback or recoupment policy as the Board or Compensation Committee may adopt.

25. **COMPLIANCE WITH SECTION 409A OF THE CODE.**

(a) Any Agreement issued under the Plan that is subject to Section 409A of the Code shall include such additional terms and conditions as may be required to satisfy the requirements of Section 409A of the Code.

(b) With respect to any Grant issued under the Plan that is subject to Section 409A of the Code, and with respect to which a payment or distribution is to be made upon a Termination of Service, if the Grantee is determined by the Company to be a specified employee within the meaning of Section 409A(a)(2)(B)(i) of the Code and any of the Company's stock is publicly traded on an established securities market or otherwise, such payment or distribution may not be made before the date which is six months after the date of Termination of Service (to the extent required under Section 409A of the Code). Any payments or distributions delayed in accordance with the prior sentence shall be paid to the Grantee on the first day of the seventh month following the Grantee's Termination of Service.

(c) The Board and the Committee shall administer the Plan, and exercise authority and discretion under the Plan, to satisfy the requirements of Section 409A of the Code or any exemption thereto. Provided, however, that neither the Board nor the Committee shall be liable to any Grantee for the failure of a Grant to comply with Section 409A of the Code, including, but not limited to, liability for any taxes or penalties associated with the failure to comply with Section 409A of the Code.

26. **NO FUND CREATED.** Any and all payments hereunder to any Grantee under the Plan shall be made from the general funds of the Company (or, if applicable, a Participating Company), no special or separate fund shall be established or other segregation of assets made to assure such payments, and the Phantom Shares (including for purposes of this Section 25 any accounts established to facilitate the implementation of Section 10(d)(iii) and any other similar devices issued hereunder to account for Plan obligations do not constitute Common Stock and shall not be treated as (or as giving rise to) property or as a trust fund of any kind; provided, however, that the Company (or a Participating Company) may establish a mere bookkeeping reserve to meet its obligations hereunder or a trust or other funding vehicle that would not cause the Plan to be deemed to be funded for tax purposes or for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. The obligations of the Company (or, if applicable, a Participating Company) under the Plan are unsecured and constitute a mere promise by the Company (or, if applicable, a Participating Company) to make benefit payments in the future and, to the extent that any person acquires a right to receive payments under the Plan from the Company (or, if applicable, a Participating Company), such right shall be no greater than the right of a general unsecured creditor of the Company (or, if applicable, a Participating Company). Without limiting the foregoing, Phantom Shares and any other similar devices issued hereunder to account for Plan obligations are solely a device for the measurement and determination of the amounts to be paid to a Grantee under the Plan, and each Grantee's right in the Phantom Shares and any such other devices is limited to the right to receive payment, if any, as may herein be provided.

27. NO FIDUCIARY RELATIONSHIP. Nothing contained in the Plan (including without limitation Section 10(e)(iii)), and no action taken pursuant to the provisions of the Plan, shall create or shall be construed to create a trust of any kind, or a fiduciary relationship between the Company, the Participating Companies, or their officers or the Committee, on the one hand, and the Grantee, the Company, the Participating Companies or any other person or entity, on the other.

28. CAPTIONS. The use of captions in the Plan is for convenience. The captions are not intended to provide substantive rights.

Table of Contents

29. GOVERNING LAW. THE PLAN SHALL BE GOVERNED BY THE LAWS OF MARYLAND, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS.

30. EXECUTION. The Company has caused the Plan to be executed in the name and on behalf of the Company by an officer of the Company thereunto duly authorized as of this 25th day of March, 2015.

TWO HARBORS INVESTMENT CORP.,  
a Maryland corporation

By: /s/ Rebecca B. Sandberg  
Name: Rebecca B. Sandberg  
Title: Secretary and General Counsel

A - 22

---

Table of Contents

EXHIBIT A

PERFORMANCE CRITERIA

Performance-Based Grants intended to qualify as performance based compensation under Section 162(m) of the Code, may be payable upon the attainment of objective performance goals that are established by the Committee and relate to one or more Performance Criteria, in each case on a specified date or over any specified period, up to 10 years, as determined by the Committee. Performance Criteria may be based on the achievement of the specified levels of performance under one or more of the measures set out below relative to the performance of one or more other corporations or indices, in the discretion of the Committee.

Performance Criteria means the following business criteria (or any combination thereof) with respect to one or more of the Company, any Participating Company or any division or operating unit thereof:

- i) pre-tax income,
- ii) after-tax income,
- iii) net income (meaning net income as reflected in the Company's financial reports for the applicable period, on an aggregate, diluted and/or per share basis),
- iv) operating income,
- v) comprehensive income and/or economic return,
- vi) cash flow,
- vii) earnings per share,
- viii) return on equity,
- ix) return on invested capital or assets,
- x) cash and/or funds available for distribution,
- xi) appreciation in the fair market value of the Common Stock,
- xii) return on investment,
- xiii) total return to stockholders (meaning the aggregate Common Stock price appreciation and dividends paid (assuming full reinvestment of dividends) during the applicable period),
- xiv) net earnings growth,
- xv) stock appreciation (meaning an increase in the price or value of the Common Stock after the date of grant of an award and during the applicable period),

Edgar Filing: TWO HARBORS INVESTMENT CORP. - Form DEF 14A

- xvi) related return ratios,
- xvii) increase in revenues,
- xviii) the Company's published ranking against its peer group of real estate investment trusts based on total stockholder return,
- xix) net earnings,
- xx) changes (or the absence of changes) in the per share or aggregate market price of the Company's Common Stock,
- xxi) number of securities sold or issued,
- xxii) earnings before any one or more of the following items: interest, taxes, depreciation or amortization for the applicable period, as reflected in the Company's financial reports for the applicable period, and
- xxiii) total revenue growth (meaning the increase in total revenues after the date of grant of an award and during the applicable period, as reflected in the Company's financial reports for the applicable period).

Table of Contents

Except as otherwise expressly provided, all financial terms are used as defined under Generally Accepted Accounting Principles ( GAAP ) and all determinations shall be made in accordance with GAAP, as applied by the Company in the preparation of its periodic reports to stockholders.

To the extent permitted by Section 162(m) of the Code, unless the Committee provides otherwise at the time of establishing the performance goals, for each fiscal year of the Company, the Committee may provide for objectively determinable adjustments, as determined in accordance with GAAP, to any of the Performance Criteria described above for one or more of the items of gain, loss, profit or expense: (A) determined to be extraordinary or unusual in nature or infrequent in occurrence, (B) related to the disposal of a segment of a business, (C) related to a change in accounting principle under GAAP, (D) related to discontinued operations that do not qualify as a segment of a business under GAAP, and (E) attributable to the business operations of any entity acquired by the Company during the fiscal year.













