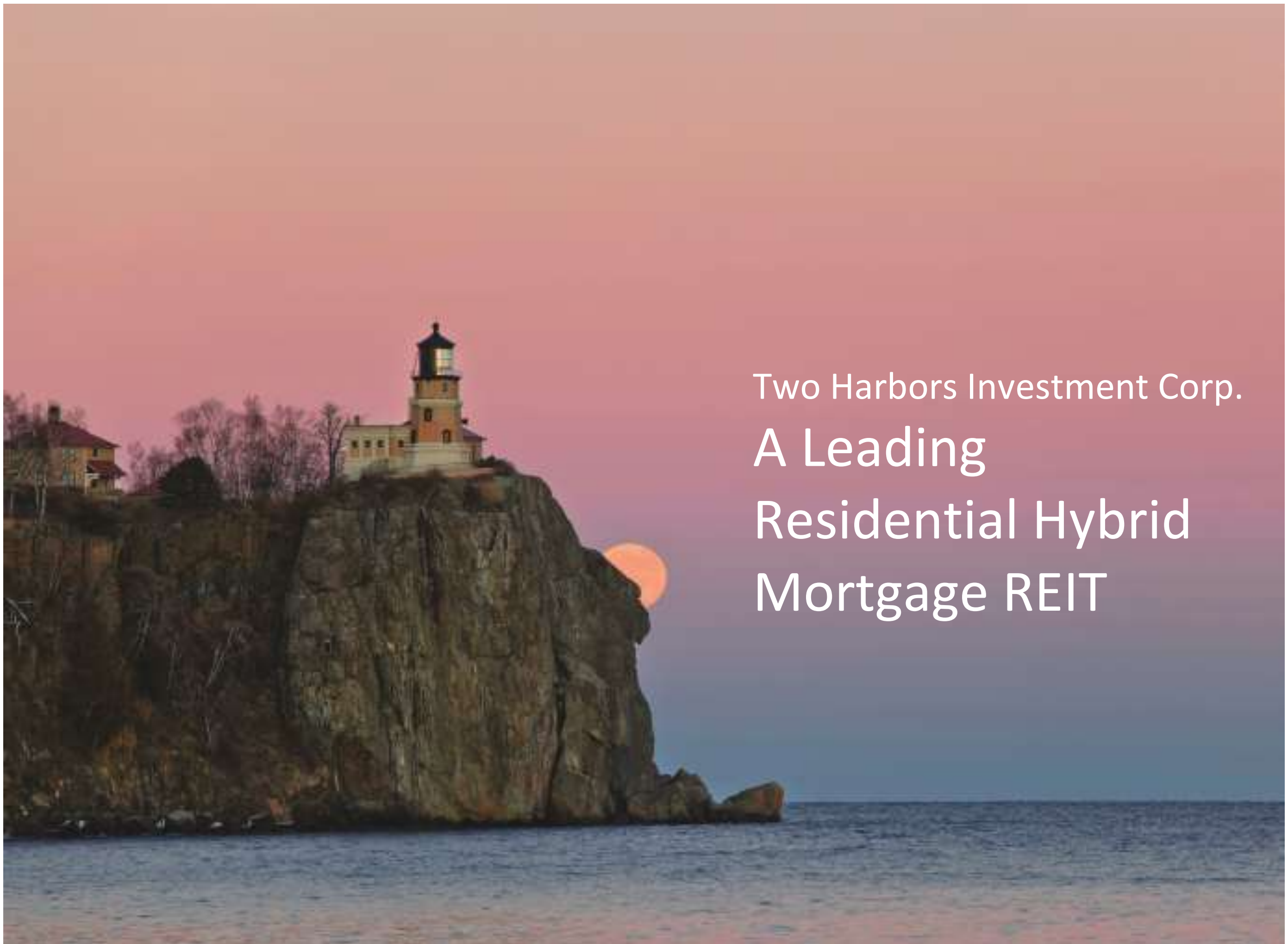

Two Harbors Investment Corp.

A Leading Residential Hybrid Mortgage REIT

Fourth Quarter 2018 Earnings Call Transcript

February 7, 2019

Margaret Field, *Investor Relations*
Thomas Siering, *President & Chief Executive Officer*
Mary Riskey, *Chief Financial Officer*
Bill Roth, *Chief Investment Officer*

Operator: Good morning. My name is Marian, and I'll be your conference facilitator. At this time, I would like to welcome everyone to Two Harbors' fourth quarter meeting financial results conference call. All participants will be in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. Today's conference is being recorded.

I would now like to turn the conference over to Maggie Field with Investor Relations for Two Harbors.

Maggie Field: Thank you and good morning, everyone. Thank you for joining our call to discuss Two Harbors' fourth quarter 2018 financial results. With me on the call this morning are Tom Siering, our President and CEO; Mary Riskey, our CFO; and Bill Roth, our CIO. After my introductory comments, Tom will provide an overview of our quarterly and annual results, Mary will highlight key items from our financials, and Bill will review our portfolio performance and strategy.

The press release and financial tables associated with today's call were filed yesterday with the SEC. If you do not have a copy, you may find them on our website or on the SEC's website at SEC.gov. In our earnings release and slides, which are now posted on the Investor Relations section of our website, we have provided a reconciliation of GAAP to non-GAAP financial measures. We urge you to review this information in conjunction with today's call. I would also like to mention that this call is being webcast and may be accessed on our website in the same location.

Before I turn the call over to Tom, I would like to remind you that remarks made by management during this conference call and the supporting slides may include forward-looking statements. Forward-looking statements are based on the current beliefs and expectations of management, and actual results may be materially different because of a variety of risks and other factors. Such statements are typically associated with words such as anticipate, expect, estimate, and believe or other such words. We caution investors not to rely unduly on forward-looking statements. Two Harbors describes these risks and uncertainties in its annual report on Form 10-K for the fiscal year ended December 31, 2017, and in other filings it makes or may make with the SEC from time to time, which are available in the Investor Relations section of Two Harbors' website and on the SEC's website at SEC.gov. Except as may be required by law, Two Harbors does not update forward-looking statements and expressly disclaims any obligation to do so.

I will now turn the call over to Tom.

Tom Siering: Thank you, Maggie, and good morning, everyone. We hope that you had a chance to review our earnings press release and presentation that we issued last night. Please turn to Slide 3 to review our results.

This quarter, despite our best risk management and hedging efforts, our book value declined to $13.11 per share. The greatest impact to our book value resulted from the spread widen on higher-coupon agency securities, which is primarily what we own in our rates strategy. While this book value performance was below our expectations, we believe there is substantial opportunity in 2019 to invest at these wider spreads. Bill will discuss this further in his remarks.

Core earnings were $0.49 per common share, representing a return on average common equity of 13.8%. We are quite pleased with this result.

Though the fourth quarter was challenging, 2018 overall was a transformative year for our company. We acquired CYS, generated strong core earnings, declared dividends above the cohort average, drove our expenses lower, and achieved substantial scale and operating efficiencies in our MSR platform, which should help drive strong returns going forward.

Please turn to Slide 4. For the past several years, we have worked hard to position the company to make more money for our stockholders. We believe that we have been quite successful in this regard. As you will recall, in 2016 we completed a thorough review of our entire business and decided to discontinue our mortgage loan conduit in order to reduce operating complexity and cost. In 2017, we enhanced our balance sheet through one convertible debt offering and three preferred stock offerings. That year we also formed and spun out Granite Point Mortgage Trust as a standalone, publicly traded vehicle for our commercial real estate lending business.

In 2018 we acquired CYS Investments, Inc., which represented a unique opportunity to further grow and expand our business while driving our expenses lower. As planned, we redeployed the capital from CYS in the third and fourth quarters. Over this 3-year period as a result of these strategic initiatives, we have driven our core earnings higher and have continuously produced strong dividends for our stockholders.

Going forward, we aim to continue generating strong earnings with an emphasis on risk management. We believe that there are attractive opportunities in our rates and credit strategies, and we are focused on actively managing our risk with a goal of dampening volatility. Additionally, we believe we can enhance returns and optimize earnings through the construction of our balance sheet.

Looking ahead to 2019, as a result of agency spread widening, there are many attractive opportunities in agency RMBS. Additionally, the MSR market continues to be active, and we continue to selectively recycle legacy non-agency securities in our portfolio that have significant total return upside potential. We are very excited about the investment opportunities for our company in 2019.

Lastly, I would like to take a moment to congratulate Mary on the confirmation of her appointment as CFO and Sheila Lichty on her appointment to Vice President and Treasurer.

I will now turn the call over to Mary to review our financial results.

Mary Riskey: Thank you, Tom. Turning to Slide 5, let's review our financial results. During the fourth quarter, we incurred a comprehensive loss of $307.9 million, or $1.24 per share. Our book value at December 31 was $13.11 per share compared to $14.81 at September 30. After accounting for our fourth quarter common stock dividend of $0.47 per share, we generated a return on book value of negative 8.3%. Book value was primarily impacted by wider agency spreads and the underperformance of higher-coupon agencies, as well as some softening in residential credit.

As we turn to Slide 6, let's review our core earnings results. Core earnings, including dollar roll income, was $0.49 in the fourth quarter, representing a return on average common equity of 13.8%. Core earnings this quarter benefited from the payoff of a discounted legacy non-agency bond, which contributed about $0.02 to core earnings. Core earnings also benefited from an increase in servicing income driven by MSR portfolio growth. Our other operating expense ratio, excluding noncash LTIP amortization, was 1.1%, down from 1.3% in the third quarter. This is consistent with our expectations, and we anticipate our expenses should remain stable in the low 1's in 2019.

Let's turn to Slide 7 to review our taxable income and dividend distributions in 2018. This year the REIT generated taxable income of $490.3 million. Our dividend declarations of $444 million resulted in a distribution percentage of 90.6%. The tax characterization of the dividends distributed by Two Harbors will be treated as ordinary income for our stockholders. $46.3 million, or approximately $0.19 per share, will be carried into 2019 for future distribution. All these metrics align with our financial projections and tax planning efforts throughout 2018. For additional information regarding the distributions and the tax treatment, please reference the dividend information found in the Investor Relations section of our website.

As we turn to Slide 8, let's review our financing profile. Our economic debt-to-equity ratio, which includes the implied debt on our TBA positions, was 7.2 times at December 31, in line with 7.3 times at September 30. Our diverse financing profile consists of traditional repo, convertible debt, and revolving credit facilities. In 2018, the repo markets functioned efficiently for us, and we have observed no disruptions. As of December 31, we had repo outstanding with 33 counterparties. Additionally, in 2018 we observed some significant positive changes to non-agency and MSR financing, which should continue to enhance returns in both of these asset classes.

Non-agency financing in 2018 was competitive, resulting in improvements in haircuts and spreads coming down about 40 basis points. In the fourth quarter, non-agency financing haircuts were generally between 20% and 30%, and we are consistently seeing spreads offered between 100 to 125 basis points over LIBOR.

We also observed the compression of MSR financing spreads in 2018, driven by a higher demand from banks to finance this asset class. Across all of our MSR facilities, we had $610 million outstanding with an additional available capacity of $160 million as of December 31. We continue to advance discussions with counterparties focused on similar features to our current facilities.

I will now turn the call over to Bill for our portfolio update.

Bill Roth: Thank you, Mary, and good morning, everyone. 2018 was a challenging year to be a mortgage REIT. This was particularly true in the fourth quarter, as agency mortgage spreads widened, interest volatility was high, and credit assets were weaker. Please turn to Slide 9.

As shown on the left, our portfolio is comprised of agency RMBS and TBAs, as well as MSR and legacy non-agency securities. We were primarily positioned in higher-coupon agencies in the fourth quarter because we viewed these as a better risk-return opportunity. While higher coupons have had more near-term volatility, over time we expect to have a greater return holding these assets.

Despite the fact that these coupons underperformed in the quarter, as we will discuss shortly, we believe they were attractive heading into the fourth quarter and are more attractive today at wider spreads, presenting the best long-term opportunity. Further, based on the Fed's recent remarks around interest rates, we could see lower interest rate volatility going forward, which would be good for mortgages.

On the right-hand side of this slide, you can see our capital allocation as of March 31, July 31--which was the date of the CYS acquisition--and December 31. The deployment of capital from CYS unfolded according to our plan as we shifted capital from agencies into MSR and non-agencies. As always, we actively evaluate our capital allocation going forward based on the best market opportunities.

Let's turn to Slide 10 to take a more detailed look at the performance of agency RMBS this quarter. As you can see on the chart on the left-hand side of this slide, throughout 2018 the agency mortgage basis widened fairly dramatically. On the right-hand side of this slide, you can see price underperformance by coupon in the fourth quarter, with the most dramatic widening occurring in higher coupons. While we expected some widening due to the Fed's reduced involvement in the market, we did not expect upping coupon spreads to perform so poorly, especially compared to lower coupons. While current coupons underperformed by over half a point, higher coupon mortgages underperformed by more than twice as much.

Moving to Slide 11, let's take a look at how this impacted our book value performance. As you know, we typically carry low interest rate exposure, and the rate volatility in the quarter did not contribute to any meaningful change in our book value. Further, our MSR performed in line with current coupon agency spread widening, as expected. As you can see in the table, our book value was primarily impacted by the underperformance of higher-coupon agencies. Additionally, our non-agency securities widened close to 50 basis points, affecting book value by about 3%.

While the fourth quarter was disappointing, we have seen stabilization in the first quarter across most markets. Agency RMBS and credit assets have tightened slightly but still remain at very attractive spreads. We estimate that book value is up about 4% in January before accruing for any dividends.

Turning to Slide 12, despite the book value challenges in the quarter, our net interest margin improved, benefiting from the purchases of agency pools at attractive yields. Additionally, MSR benefited from slower prepayment speeds due to seasonality and the higher interest rate environment, and yields on non-agencies were stable.

Please turn to Slide 13. As a result of the substantial higher coupon spread widening in the fourth quarter, we believe there are much better opportunities today to invest in agencies. We currently see expected returns on agencies in the low double digits and agencies paired with MSR in the mid double digits. Due to the attractiveness of higher coupon 30-years, we continue to focus our holdings in that sector, and we believe that these coupons will generate attractive returns over time.

On the MSR front, the market continues to be robust, with over $225 billion UPB of bulk MSR transferring in 2018. In the fourth quarter, we acquired $36.1 billion UPB, growing our portfolio to $163.1 billion. This represents year-over-year growth of about 60%. We've continued to see a large amount of bulk MSR transaction activity so far in 2019. Due to difficult origination margins and the consolidation of originators, we expect this trend to continue and aim to take advantage of opportunities as a result of this dynamic.

Moving to our credit strategy, the legacy non-agency market was active in 2018, and this asset class continues to benefit from strong residential credit tailwinds. In the fourth quarter, we added $266 million of deeply discounted legacy non-agencies. As Mary mentioned, we also had a non-agency bond that was called at par, which was beneficial to our core earnings. As the discounted bonds we hold get to par or near par such as this one, we expect to recycle the capital into the best opportunities in the market at that time. We are still finding attractive total return opportunities in deeply discounted legacy non-agencies, although prospective purchase yields are generally lower than those that we have been realizing in the past several years.

Turning to Slide 14, we remain committed to maintaining a conservative risk profile, with the goal of having low exposures to both rates and spreads. As you can see on the top of the slide, our book value and net interest income exposure to interest rate moves remains low. Additionally, we continue to manage our spread exposure through both portfolio positioning and through a combination of MSR swaps and mortgage options.

As we continue to add MSR, we anticipate that our spread exposure will be further mitigated. Importantly, I point out that this disclosure assumes all agency coupons perform in line with each other spread-wise and also does not include any impact from non-agency spread moves.

In conclusion, as we head into 2019, we believe there are very attractive opportunities to invest in the mortgage market at wider spreads. We believe that our asset mix of agency RMBS, MSR, and legacy non-agency securities should drive long-term returns and stability in our results.

I will now turn the call back to the operator for Q&A.

QUESTION & ANSWER SESSION

Operator: Thank you. If you would like to ask a question, please press star-one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has been answered, you may remove yourself from the queue by pressing star-two. Again, please press star-one to ask a question. We will pause just a moment to allow everyone to signal for questions.

We will take our first question from Bose George. Please go ahead.

Bose George: Hey, good morning. Actually, I wanted to touch on--you said returns on agencies paired with MSR are in the mid-teens. When I look at your existing return on your portfolio, the $1.88 overbooked mark-to-market book value of, say, $13.60 or something like that, it works out to a gross ROE essentially in the mid-teens. So are returns in the market better than your existing portfolio, or would you say they're in line?

Bill Roth: Hey, good morning, Bose, it's Bill. Thanks for joining us. Well, I would say two things. First of all, our expected returns, as I mentioned, on agencies just hedged with rates are in the low double digits, and as you noted, combined with

MSRs in the mid double digits. And then on credit, it's more of a total return or expected total return story which we've discussed in the past, and we see that being in the double digits. The returns that we realized on the portfolio currently are driven partly by that and also partly by the historical cost associated with what we hold. So I would say that the most important thing that we think about is what the market returns are as we redeploy capital that either comes in or as we move from sector to sector.

Bose George: Okay, but I guess what I was sort of getting to is the incremental capital, when you think about it, does it boost the return on the existing portfolio? Because now it is obviously kind of a high return, I would say, on the existing portfolio as well.

Bill Roth: Yes, I would say that given the wider spreads that are in the market today, as we talked about on the call, yes, I would say the answer is yes.

Bose George: Okay, great, thanks. And then actually just switching to leverage, can you talk about leverage--actually, first at the corporate level. With the decline in common, your preferreds and your converts now are, I guess, 30-ish percent of total capital. Is that a level that you guys are comfortable with? Or just any thoughts there would be great.

Tom Siering: Sure, Bose, this is Tom, how are you? Good morning. We're comfortable with our leverage; we're comfortable with our equity capitalization as it exists today. Obviously, it's something that we always keep our eye on.

Bose George: Okay, thanks. And then actually one macro question. Just obviously, there is a lot of market chatter about the Fed potentially slowing runoff of its portfolio. Just get your thoughts on if that's something that the Fed could end at some point in '19 or '20. And also just how you think that impacts mortgages--do you think the Fed keeps running off MBS and buys Treasuries, or do they--how do you think they kind of play that whole thing?

Bill Roth: Yes, I think our view is in line with your last comment there, which is that to the extent that they would be inclined to pursue that strategy, it would be more likely that they revert to either primarily owning Treasuries or almost exclusively. So I think our view is that it's likely that mortgages continue to decline. And so I think that would be our alignment--I think it would be in alignment with what your last comment was.

Bose George : Okay, great, thanks a lot, guys.

Operator: We will now take the next question from Doug Harter. Please go ahead.

Doug Harter: Thanks. Given the widening you saw in the fourth quarter, would this be a time where you would want to own agencies kind of without the MSRs to get the potential recovery in those? Or do you not think that we kind of get a snap-back from that widening?

Bill Roth: Yes, sure, good morning, Doug. Thanks for joining us. Well, I have a couple of comments on that. First of all, as I think most people on the call know, the markets have stabilized and we have seen some retracement, which has contributed to the comments about our book value and just overall markets in general. That being said, spreads are certainly still a lot wider than they were 3 months ago. So in terms of including servicing, we still think that over a long period of time, owning servicing helps us manage our spread risk. And by and large, our MSR hedge pairs very well with the current coupon, which is represented generally in mortgage spread risk.

But I would say that we continue to see tremendous opportunity in the higher coupons. They were attractive all, going into the fourth quarter, but we think they're even more attractive today. The short story is they have more yield, they have more spread, they have shorter durations, so they're cheaper to hedge. And being that they're not being produced as the Fed's portfolio runs off, there's not supply of higher coupons. So we think they, over time, should be less susceptible to supply pressures there. So I would say yes, we continue to like them, we do like them on their own. But building MSR still, we think, is a very compelling story in terms of managing risk and generating yield.

Tom Siering: Hey Doug, good morning. It's Tom. Also, it's important to note our key takeaway here is MSR did its thing in the fourth quarter, as shown on Slide 11 of our investor deck. So we do think it's an important part of our strategy going forward. It's still a very attractive asset on a standalone basis, and certainly coupled with agencies.

Doug Harter: Thanks. Bill, if you could just walk through--obviously, I know the fourth quarter was kind of a challenging quarter for most asset classes. But what were the factors that led the upping coupons to underperform so substantially? Kind of given the factors as to why you think they're attractive, if those were in place before, what kind of led to that significant underperformance?

Bill Roth: Yes, that's a great question. And you never really know, but I think we would highlight a few things that--the fourth quarter was obviously very much of a risk-off environment. Markets, as you know, can act irrationally and misprice assets when there's fear. Volatility was obviously substantially higher. And frankly, that--the combination of risk off and people not really looking for assets that were cheaper or offer relative value just impacted the higher coupons a lot more than other sectors.

Doug Harter: All right, makes sense. Thank you.

Operator: We will now take the next question from Stephen Laws. Please go ahead.

Stephen Laws: Hi, good morning. You talked a good bit about the market from Q4 and opportunities today. When you compare the opportunity for new investments in agency versus the opportunity on the credit side, which one is relatively more attractive? I know from a mix standpoint, maybe you need a little bit more credit to kind of get back to that pre-CYS acquisition allocation. But how do you compare the two as far as putting the dollar to work today?

Bill Roth: Hey, Stephen, good morning. Thanks for the question and thanks for joining us. Yes, that's a really good question. I would say this: they are both attractive, but in different ways. And the reason I say that is because the yield and the carry and the sort of spot or static return that you can get from the agency sector is much more compelling today as a result of the widening that we saw, not just in the fourth quarter but just over all of 2018.

The non-agency sector, to us, is more of a total return story, and so when we find these deep discount legacy bonds that we think can drive total returns in the double digits, we're going to buy those. You can't just necessarily go out and buy a whole ton of those because some of them are more stable, some of them are high dollar price, et cetera. And as we talked about on the call, when these things get near par, they've already realized the upside, so those we'd either see paid off or we'd sell them and recycle them.

The agency market is extremely deep and very easy to deploy capital in quickly. So we like them both. The agency strategy, that part of it, is much more readily acceptable, but we still continue to plan on buying non-agency bonds that have the upside that we think exists there.

Tom Siering: Stephen, to your point, there's no doubt that agencies have become relatively more attractive in the current market environment, and that's something that we're very mindful of as we allocate capital going forward.

Stephen Laws: Right. Thanks for the color on that. Flipping to the funding side, can you maybe just talk about the repo market and your counterparties? I think, if I remember from the last conference call, you guys added roughly 10 new counterparties with the CYS transaction. Just how the counterparties are acting, especially due to the volatility in Q4? Have there been any changes in how they approach funding your portfolio?

Tom Siering: Sure, Stephen, I'm going to let Mary handle that one.

Mary Riskey: Hi, Stephen. So we do have that total of 46 counterparties. You're correct; we added about a net 10 with the CYS acquisition. We have not observed, really any disruptions and the repo market's continued to function efficiently for us. We had outstanding with 33 counterparties at 12/31 but again, no disruptions.

Tom Siering: Yes, and in respect to funding, Stephen, you wouldn't even know that the market volatility exists. It's just business as usual. Markets are wide open and funding's abundant in all the asset classes in which we invest.

Stephen Laws: Yes, I was expecting to hear that, but wanted to--it's always good to hear it confirmed. So I appreciate that. And we'll talk to you again soon. Thanks.

Tom Siering: You bet. Thank you.

Operator: We will take the next question from Rick Shane. Please go ahead.

Rick Shane: Hey guys, thanks for taking my questions this morning. I want to make sure we understand the non-agency credit markdowns. Were there credit events into specific pools that drove this? Was this concentrated in specific securities or was this more generally spread widening across the grid?

Tom Siering: Bill's going to take that. It's really just a function of a risk-off environment in the fourth quarter, but Bill can give you more color.

Bill Roth: Yes, we saw--well, as Tom said, all credit markets were wider in the fourth quarter--IG, high yield, CRT, CLO, you name it. And legacy non-agency actually modestly outperformed some of those other markets, but nonetheless they are still 40 to 50 basis points wider. And it was just general spread widening. There was no deterioration in credit performance of the underlying pools; in fact, they continued to perform very much in line with our expectations. And so it had nothing to do with changing performance; it was just general credit widening.

Tom Siering: No idiosyncratic event or events at all within our portfolio--zero.

Rick Shane: Got it, yes. The way that was written, we could have interpreted it both ways and that's why I thought it was spread widening, but I wanted to make sure. One other question: just thinking about the negative convexity, if we move to a more benign rate environment, could you have continued underperformance of those high coupon securities if we move to a more benign environment?

Bill Roth: While it's impossible to predict the future, typically we would expect to see--in a more benign interest rate and less volatile environment, we would expect to see the securities that were most impacted, which would be those that have more negative invested, to your point, to actually do better. Because if you lower volatility, your ability to realize the returns is much higher. So that's the way. And I think we made a comment, or I made that comment on the call, that given the Fed's comments of a few weeks ago, it's more likely that that will be the case.

Tom Siering: Yes, if you look at the environment in the fourth quarter, right, it was one of those times where fear trumps logic, and then people are just going to seek shelter. But in a more benign environment, things tend to retrace to their fair value. So we're reasonably comfortable, over time, that these higher coupons will fall in line with their true value.

Rick Shane: Got it. Guys, thank you very much.

Operator: We will now take the last question from George Bahamondes. Please go ahead.

George Bahamondes: Hi, good morning. Just two questions from me. The first, I noticed you added about $30 billion of MSR in January, following about $36 billion of MSR in 4Q. Can you just touch on maybe what that environment looks like from a flow and then bulk perspective and how you're thinking about that this year relative to what it looked like for you in 2018?

Bill Roth: Yes, sure. The MSR market's actually very active, very robust, lots of activity. And there's really two--as you know, we have two channels. We have the flow channel, where we have a number of originators that we continue to get MSR from every month. And in the bulk market last year, total volumes were north of $200 billion. And so far in the first quarter, we're already seeing bulk packages that would imply north of $200 billion on an annualized scale, on an annualized basis. So in terms of--we still see opportunity there. I go back to Tom's comments about the value of MSR. The one thing I'd say is I think you mentioned about the $30 some-odd billion that we added in the first quarter--I think you meant the fourth quarter. We didn't make any comments on the first quarter. But nonetheless, we expect this year to be another strong year for building that platform.

George Bahamondes: Got it. I may have misread Slide 13, the $30 billion and both deals transacted in January, so that was to the broader market. Got it, so that was the confusion from my end. Thanks for clarifying that.

Bill Roth: Sorry for that being confusing. Yes, that's--

George Bahamondes: Okay, that makes sense. The second one, just on book value performance, have you seen that recover a bit, quarter to date? Any comments around how book value may have performed now that we're the early part of February?

Bill Roth: Yes, sure. Yes, in my comments earlier we mentioned that we have seen spreads tighten modestly in both the agency side and the credit side. And then book value in January, we estimate to be up around 4% before accruing for any dividends.

George Bahamondes : Great. That's helpful, and that's it for me today. Appreciate it.

Tom Siering: Thanks, George.

Operator: We will now take our next question from Trevor Cranston. Please go ahead.

Trevor Cranston: Great, thanks, good morning. Just a couple of quick ones. First, on the overall portfolio leverage, can you guys comment on how you're thinking about that and how much you might be willing to increase that in light of the investment opportunities you're currently seeing?

Bill Roth: Yes, sure. Good morning and thanks for joining us. Yes, our economic debt-to-equity, and that includes, obviously, the TBA positions, was down slightly, still in the low 7's at the end of the year. I think that we're actually very comfortable with where we are. But on a go-forward basis as we add more servicing, you can expect that number to trend lower. And that's consistent with the commentary we made right after the CYS acquisition because the leverage bumped up, obviously, adding more agencies. And then as we redeploy, we expect that to trend lower. So I think we are still of that mindset.

Trevor Cranston: Got it, okay. And then looking at the agency portfolio breakdown on Slide 22, I was wondering if you could maybe comment on the net TBA position specifically. I was wondering if you could give a rough sort of coupon split of that bucket, just to help us for modeling purposes.

Bill Roth: Yes, sure. Yes, great question. I'd make two comments. First, that can move around in coupons and in size. And if you look back historically, those numbers have bounced around, depending on the opportunities we're seeing. But high level, we're currently primarily positioned in the higher coupons which, as we said before, we thought were attractive going into the quarter and now are substantially more attractive. So overall, we plan to maintain that exposure in the higher coupons for the time being.

Trevor Cranston: Got it, okay, that helps. Thank you.

Operator: I will turn the call back to Mr. Siering for concluding comments.

Tom Siering: Thanks, Marian. Thank you for joining our conference call today. We are very excited about the opportunities ahead for the company. Have a wonderful day.

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