

# Report of Organizational Actions Affecting Basis of Securities

OMB No. 1545-0123

► See separate instructions.

## Part I Reporting Issuer

|   |   |   |                                    |
|---|---|---|------------------------------------|
| 1 Issuer's name<br><b>TWO HARBORS INVESTMENT CORP.</b>  |   | 2 Issuer's employer identification number (EIN)<br><b>27-0312904</b>  |                                    |
| 3 Name of contact for additional information<br><b>TWO HARBORS INVESTOR RELATIONS</b>   | 4 Telephone No. of contact<br><b>612-453-4100</b> | 5 Email address of contact<br><b>INVESTORS@TWOHARBORSINVESTMENT.COM</b>                                       |                                    |
| 6 Number and street (or P.O. box if mail is not delivered to street address) of contact<br><b>601 CARLSON PARKWAY, SUITE 1400</b> |   | 7 City, town, or post office, state, and ZIP code of contact<br><b>MINNETONKA, MN 55305</b>                   |                                    |
| 8 Date of action<br><b>4/16/2020, 06/30/2020, 10/01/2020, 12/30/2020</b>  |   | 9 Classification and description<br><b>NO CONVERSION RATE ADJUSTMENT ON CONVERTIBLE NOTE OCCURRED IN 2020</b> |                                    |
| 10 CUSIP number<br><b>90187BAA9</b>   | 11 Serial number(s)<br><b>N/A</b>                 | 12 Ticker symbol<br><b>TWO 6.25 01/15/2022</b>  | 13 Account number(s)<br><b>N/A</b> |

## Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► **SEE ATTACHED**

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► **SEE ATTACHED**

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► **SEE ATTACHED**

**17** List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► **SEE ATTACHED**

**18** Can any resulting loss be recognized? ► **SEE ATTACHED**

**19** Provide any other information necessary to implement the adjustment, such as the reportable tax year ► **SEE ATTACHED**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ►

Mary K. Rick

Date ► 1/27/2021

Print your name ► **MARY RISKEY**

**Title ▶ VP AND CHIEF FINANCIAL OFFICER**

|                            |                      |      |   |      |
|----------------------------|----------------------|------|---|------|
| Print/Type preparer's name | Preparer's signature | Date | Check <input type="checkbox"/> if self-employed | PTIN |
| Firm's name ▶              |                      |      | Firm's EIN ▶                                    |      |
| Firm's address ▶           |                      |      | Phone no.                                       |      |

**Two Harbors Investment Corp.**  
**Conversion Rate Adjustment on Convertible Note Deemed a Distribution**  
**Attachment to Form 8937**

**CONSULT YOUR TAX ADVISOR**

THE FOLLOWING DISCUSSION IS A SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE CONVERSION RATE ADJUSTMENT ON THE CONVERTIBLE NOTE DEEMED A DISTRIBUTION UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE TAX ADVICE AND DOES NOT PURPORT TO BE COMPLETE OR TO DESCRIBE THE CONSEQUENCES THAT MAY APPLY TO PARTICULAR CATEGORIES OF SHAREHOLDERS.

SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES OF THE CONVERSION RATE ADJUSTMENT ON THE CONVERTIBLE NOTE DEEMED A DISTRIBUTION.

**Part II – Organizational Action**

**Line 14.** Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action.

Two Harbors Investment Corp. made cash distributions to each of its common stock shareholders of record on April 16, 2020, June 30, 2020, October 1, 2020, and December 30, 2020. Two Harbors Investment Corp.'s 6.25% Convertible Senior Notes due 2022 did not have a conversion rate adjustment or deemed distribution related to any of these cash distributions.

**Line 15:** Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis.

There was no deemed distribution for the 2020 taxable year and thus no quantitative effect on the basis of the notes in the hands of the taxpayer. The table below shows the taxable and non-taxable portions of each deemed distribution per \$1,000 principal amount of the 6.25% Convertible Senior Notes due 2022:

| Deemed Distribution Date | Deemed Distribution | Taxable Portion (Deemed Dividend) | Non-Taxable Portion |
|--------------------------|---------------------|-----------------------------------|---------------------|
| 04/16/2020               | \$0.0000            | \$0.0000                          | \$0.0000            |
| 06/30/2020               | \$0.0000            | \$0.0000                          | \$0.0000            |
| 10/01/2020               | \$0.0000            | \$0.0000                          | \$0.0000            |
| 12/30/2020               | \$0.0000            | \$0.0000                          | \$0.0000            |

Tax Characterization of Taxable Portion:

| Deemed Distribution Date | Total Taxable Deemed Distribution | Ordinary Dividend (Box 1a) | Qualified Dividend (Box 1b) | Capital Gain Distribution (Box 2a) | Section 199A Dividends (Box 5)* |
|--------------------------|-----------------------------------|----------------------------|-----------------------------|------------------------------------|---------------------------------|
| 04/16/2020               | \$0.0000                          | \$0.0000                   | \$0.0000                    | \$0.0000                           | \$0.0000                        |
| 06/30/2020               | \$0.0000                          | \$0.0000                   | \$0.0000                    | \$0.0000                           | \$0.0000                        |
| 10/01/2020               | \$0.0000                          | \$0.0000                   | \$0.0000                    | \$0.0000                           | \$0.0000                        |
| 12/30/2020               | \$0.0000                          | \$0.0000                   | \$0.0000                    | \$0.0000                           | \$0.0000                        |

*\*Box 5 of 1099-DIV. This shows the portion of the amount in box 1a that may be eligible for the 20% qualified business income deduction under section 199A.*

**Line 16: Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates.**

There was no Conversion Rate Adjustment or deemed distribution for the 2020 taxable year. Therefore, there is no change in basis of the notes in the hands of the taxpayer for the 2020 taxable year.

Had a Conversion Rate Adjustment occurred resulting in a deemed distribution it would be treated for U.S. federal income tax purposes under IRC Section 305(c) and consistent with Prop. Reg. Section 1.305-7(c)(4)(i)(A)-(B), (4/13/2016) as a deemed distribution in an amount equal to the excess of (a) the fair market value of the total rights on the Ex-Dividend Date, given the Conversion Rate Adjustment, over (b) the fair market value that the total rights would have had on the Ex-Dividend Date, if the Conversion Rate Adjustment had not occurred. The portion of the deemed distribution that is taxable is based on the allocable share of the earnings and profits. Two Harbors Investment Corp.'s earnings and profits were calculated under IRC Section 312 (as modified by IRC Section 857(d) for a real estate investment trust), and the regulations thereunder.

**Line 17: List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.**

IRC Section 301(c)(1), 305(b)(2) and 305(c). Reg. 1.301-1(h) and Rev. Rul. 76-186, 1976-1 C.B.86, Prop. Reg. 1.305-3(f).

**Line 18: Can any resulting loss be recognized?**

No.

**Line 19:**        **Provide any other information necessary to implement the adjustment, such as the reportable tax year:**

There was no Conversion Rate Adjustment or deemed distribution for the 2020 taxable year.