CARPENTER TECHNOLOGY CORP
Form S-3ASR
June 27, 2011
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As filed with the Securities and Exchange Commission on June 27, 2011

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CARPENTER TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**23-0458500**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 14662 Reading, Pennsylvania 19610

(610) 208-2000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

James D. Dee Vice President, General Counsel and Secretary Carpenter Technology Corporation

P.O. Box 14662 Reading, Pennsylvania 19610

(610) 208-2000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Barry M. Abelson, Esq. Pepper Hamilton LLP 3000 Two Logan Square Eighteenth and Arch Streets

Philadelphia, PA 19103-2799 (215) 981-4000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Aggregate Amount to be Registered**	**Proposed Maximum Offering Price per Unit**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee(1)**
Debt Securities				

(1)

Pursuant to Form S-3 General Instruction II(E) information is not required to be included. An indeterminate aggregate initial offering price or number or amount of the debt securities is being registered as may from time to time be issued at currently indeterminable prices. The proposed maximum initial offering prices of the debt securities will be determined, from time to time, by Carpenter Technology Corporation in connection with the issuance by Carpenter Technology Corporation of the securities registered under this registration statement. Prices, when determined, may be in United States dollars or the equivalent thereof in one or more foreign currencies, foreign currency units or composite currencies. If any debt securities are issued at an original issue discount, then the amount registered shall include the principal of such securities measured by the initial offering price thereof. In reliance on Rule 456(b) and Rule 457(r) under the Securities Act, Carpenter Technology Corporation hereby defers payment of the registration fee required in connection with this registration statement.

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P R O S P E C T U S

CARPENTER TECHNOLOGY CORPORATION

Debt Securities

This prospectus contains a general description of the debt securities which we may offer for sale. The specific terms of the debt securities will be described in one or more supplements to this prospectus. Read this prospectus and any supplement carefully before you invest.

The debt securities will be issued by Carpenter Technology Corporation.

Investing in our debt securities involves risks that are referenced under the caption Risk Factors on page 6 of this prospectus. You should carefully review the risks and uncertainties described under the heading Risk Factors contained in the applicable prospectus supplement and any related free writing prospectus, and under similar headings in the other documents that are incorporated by reference in this prospectus.

These securities have not been approved or disapproved by the securities and exchange commission or any state securities commission nor has the securities and exchange commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 27, 2011.

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ABOUT THIS PROSPECTUS

To understand the terms of the debt securities offered by this prospectus, you should carefully read this prospectus and any applicable prospectus supplement. You should also read the documents referred to under the heading Where You Can Find More Information for information on Carpenter Technology Corporation and its financial statements. Certain capitalized terms used in this prospectus are defined elsewhere in this prospectus.

This prospectus is part of a registration statement on Form S-3 that Carpenter Technology Corporation, a Delaware corporation, which is also referred to as Carpenter Technology, the Company, our company, we, us and our, has filed with the U.S. Securities and Exchange Comm or the SEC, using a shelf registration procedure. Under this procedure, Carpenter Technology Corporation may offer and sell from time to time, debt securities in one or more series, which we refer to in this prospectus as the debt securities.

The debt securities may be sold for U.S. dollars, a foreign-denominated currency or a currency unit. Amounts payable with respect to any debt securities may be payable in U.S. dollars or a foreign-denominated currency or a currency unit as specified in the applicable prospectus supplement.

This prospectus provides you with a general description of the debt securities we may offer. Each time we offer debt securities, we will provide you with a prospectus supplement that will describe the specific amounts, prices and terms of the debt securities being offered. The prospectus supplement may also add, update or change information contained or incorporated by reference in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement.

The prospectus supplement may also contain information about any material U.S. Federal income tax considerations relating to the debt securities covered by the prospectus supplement.

The prospectus supplement will also contain, with respect to the debt securities being sold, the manner of sale, the names of any underwriters, dealers or agents, together with the terms of the offering, the compensation of any underwriters, dealers or agents and the net proceeds to us. Any underwriters, dealers or agents participating in the offering may be deemed underwriters within the meaning of the Securities Act of 1933, as amended, which we refer to in this prospectus as the Securities Act.

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WHERE YOU CAN FIND MORE INFORMATION

Carpenter Technology files annual, quarterly and current reports, proxy statements and other information with the SEC. You may obtain such SEC filings from the SEC s website at http://www.sec.gov. You can also read and copy these materials at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain further information about the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also obtain information about Carpenter Technology at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

As permitted by SEC rules, this prospectus does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, exhibits and schedules for more information about us and the debt securities. The registration statement, exhibits and schedules are available through the SEC s website or at its Public Reference Room.

INCORPORATION BY REFERENCE

In this prospectus, we incorporate by reference certain information that we file with the SEC, which means that we can disclose important information to you by referring you to that information. The information we incorporate by reference is an important part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. The following documents (other than any portion of such filings that are furnished under applicable SEC rules rather than filed) have been filed by us with the SEC and are incorporated by reference into this prospectus:

- Annual report on Form 10-K for the year ended June 30, 2010, including portions of the proxy statement for the 2010 annual meeting of stockholders to the extent specifically incorporated by reference therein (collectively, the 2010 Form 10-K),
- Quarterly report on Form 10-Q for the quarters ended September 30, 2010, December 31, 2010 and March 31, 2011, and
- Current reports on Form 8-K filed on July 2, 2010, July 22, 2010, August 4, 2010, August 23, 2010, September 3, 2010 (two), October 13, 2010, October 19, 2010, January 4, 2011, April 21, 2011 and June 21, 2011 (two).

All documents and reports that we file with the SEC (other than any portion of such filings that are furnished under applicable SEC rules rather than filed) under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus until the completion of the offering under this prospectus shall be deemed to be incorporated in this prospectus by reference. The information contained on or accessible through our website (http://www.cartech.com) is not incorporated into this prospectus.

You may request a copy of these filings, other than an exhibit to these filings unless we have specifically included or incorporated that exhibit by reference into the filing, from the SEC as described under Where You Can Find More Information or, at no cost, by writing or telephoning Carpenter Technology at the following address:

Carpenter Technology Corporation Attn: Investor Relations P.O. Box 14662 Reading, Pennsylvania 19610 Telephone: (610) 208-2000

You should rely only on the information contained or incorporated by reference in this prospectus, the prospectus supplement, any free writing prospectus that we authorize and any pricing supplement. We have not authorized any person, including any salesman or broker, to provide information other than that provided in this

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prospectus, any applicable prospectus supplement, any free writing prospectus that we authorize or any pricing supplement. We do not take responsibility for, and can provide no assurance as to the reliability of, any information that others may give you. We are not making an offer of the debt securities in any jurisdiction where the offer is not permitted. You should assume that the information in this prospectus, any applicable prospectus supplement, any free writing prospectus that we authorize and any pricing supplement is accurate only as of the date on its cover page and that any information we have incorporated by reference is accurate only as of the date of such document incorporated by reference.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus, any prospectus supplement, or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act. These statements, which represent our expectations or beliefs concerning various future events, include statements concerning future revenues, earnings and liquidity associated with continued growth in various market segments and cost reductions expected from various initiatives. These statements may be made directly in this prospectus or in documents incorporated by reference. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection v discussion of future operating or financial performance identify forward-looking statements. All of these forward-looking statements are based on management s current expectations and beliefs about future events. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances.

These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ from those projected, anticipated or implied. The most significant of these uncertainties include but are not limited to:

- the cyclical nature of our business and certain end-use markets, including aerospace, industrial, automotive, consumer, medical, and energy, or other influences on our business such as new competitors, the consolidation of competitors, customers, and suppliers or the transfer of manufacturing capacity from the United States to foreign countries;
- our ability to achieve cost savings, productivity improvements or process changes;
- the volatility of, and our ability to recoup increases in, the cost of energy, raw materials, freight or other factors;
- domestic and foreign excess manufacturing capacity for certain metals;
- fluctuations in currency exchange rates;
- the degree of success of government trade actions;
- the valuation of the assets and liabilities in our pension trusts and the accounting for pension plans;
- possible labor disputes or work stoppages;
- the potential that our customers may substitute alternate materials or adopt different manufacturing practices that replace or limit the suitability of our products;
- the ability to successfully acquire and integrate acquisitions;
- the availability and costs of financing and credit facilities to us, our customers or other members of the supply chain;
- the ability to obtain energy or raw materials, especially from suppliers located in countries that may be subject to unstable political or economic conditions;

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- our manufacturing processes are dependent upon highly specialized equipment located primarily in one facility in Reading, Pennsylvania and for which there may be limited alternatives if there are significant equipment failures or catastrophic events;
- our future success depends on the continued service and availability of key personnel, including members of our executive management team, management, metallurgists and other skilled personnel and the loss of these key personnel could affect our ability to perform until suitable replacements are found;
- our expectations with respect to the synergies, costs and other anticipated financial impacts of our pending merger with Latrobe Specialty Metals, Inc., or Latrobe, could differ from actual synergies realized, costs incurred and financial impacts experienced as a result of the transaction; and
- the possibility that our pending merger with Latrobe is delayed or does not close, including, without limitation, due to the failure to receive any required regulatory approvals or the failure to satisfy any closing condition.

Any of these could have an adverse and/or fluctuating effect on our results of operations. For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see the documents that we have filed with the SEC, including our quarterly reports on Form 10-Q, our most recent annual report on Form 10-K, our current reports on Form 8-K and our proxy statement.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We are not under any obligation to, and expressly disclaim any obligation to, update or alter any forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

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THE COMPANY

We develop, manufacture and distribute cast/wrought and powder metal stainless steels and special alloys including high temperature alloys, controlled expansion alloys, ultra high strength alloys, implantable alloys, tool and die steels and other specialty metals, as well as cast/wrought titanium alloys. We provide material solutions to the ever-changing needs of the aerospace, industrial, energy, medical, consumer products and automotive industries.

We are organized around three core business segments:

Our Advanced Metals Operations (AMO) segment includes the manufacturing and distribution of high temperature and high strength metal alloys, stainless steels, and titanium in the form of small bars and rods, wire, narrow strip and powder. Products in this segment typically go through more finishing operations, such as rolling, turning, grinding, drawing, and atomization, than products in our PAO segment (as described below). Also, sales in the AMO segment are spread across many end-use markets, including the aerospace, industrial, consumer, automotive, and medical industries. AMO products are sold under the Carpenter, Dynamet, Talley, Carpenter Powder Products and Aceros Fortuna brand names.

Our Premium Alloys Operations (PAO) segment includes the manufacturing and distribution of high temperature and high strength metal alloys and stainless steels in the form of ingots, billets, large bars and hollows. Also, the PAO segment includes conversion processing of metal for other specialty metals companies. A significant portion of PAO sales are to customers in the aerospace and energy industries. Much of PAO sales are to forging companies that further shape, mill, and finish the metals into more specific dimensions. All such sales are made under the Carpenter brand name.

Our Emerging Ventures segment currently includes the operations of Amega West Services, a manufacturer and service provider of high-precision components for measurement while drilling (MWD) and logging while drilling (LWD), drill collars, stabilizers and other down-hole tools used for directional drilling. MWD and LWD technology is used to ensure critical data is obtained and transmitted to the surface to monitor progress of the well. The net sales of Amega West are to customers in the energy end use market.

Our principal executive offices are located at P.O. Box 14662, Reading, Pennsylvania 19610, Telephone (610) 208-2000.

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RISK FACTORS

Investing in our debt securities involves risk. You should carefully consider the specific risks discussed or incorporated by reference in the applicable prospectus supplement, together with all the other information contained in the prospectus supplement or incorporated by reference in this prospectus and the applicable prospectus supplement. You should also consider the risks, uncertainties and assumptions discussed under the caption Risk Factors included in the 2010 Form 10-K, which are incorporated by reference in this prospectus, and which may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for Carpenter Technology is set forth below for the periods indicated. For periods in which earnings before fixed charges were insufficient to cover fixed charges, the dollar amount of coverage deficiency (in millions), instead of the ratio, is disclosed.

For purposes of computing the ratio of earnings to fixed charges, earnings consists of:

- income before income taxes, extraordinary charges and cumulative effect of changes in accounting principles,
- gains and losses related to less-than-fifty-percent-owned persons,
- fixed charges (excluding capitalized interest), plus
- the amount of previously capitalized interest amortized during the period.

Fixed charges primarily consist of interest costs (which include capitalized interest and amortization of debt discount) and debt expense and an amount representing the interest component of non-capitalized leases.

	Nine Months Ended	Year Ended June 30,				
	March 31, 2011	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges	4.6x	1.3x	3.8x	12.9x	12.9x	12.5x

USE OF PROCEEDS

We will use the net proceeds we receive from the sale of the debt securities offered by this prospectus for general corporate purposes, unless we specify otherwise in the applicable prospectus supplement. General corporate purposes may include additions to working capital, capital expenditures, repayment of debt, the financing of acquisitions, joint ventures and other business combination opportunities or stock repurchases.

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DESCRIPTION OF THE DEBT SECURITIES

The debt securities offered hereby will be issued under an Indenture, dated as of January 12, 1994, between Carpenter Technology and U.S. Bank National Association, as successor Trustee to Morgan Guaranty Trust Company of New York and U.S. Bank Trust National Association (the Trustee), as it may be amended or supplemented from time to time (the Indenture). The debt securities may be issued from time to time in one or more series. The particular terms of each series, or of debt securities forming a part of a series, which are offered by a prospectus supplement, will be described in such prospectus supplement.

The following summary of certain provisions of the Indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all provisions of the Indenture, including the definitions therein of certain terms which are not otherwise defined in this prospectus. The terms of the Indenture are also governed by certain provisions contained in the Trust Indenture Act of 1939, as amended (the TIA). Certain capitalized terms used below but not defined herein have the meanings ascribed to them in the Indenture.

General

The Indenture provides that debt securities in separate series may be issued thereunder from time to time without limitation as to aggregate principal amount. Carpenter Technology may specify a maximum aggregate principal amount for the debt securities of any series. The debt securities are to have such terms and provisions which are not inconsistent with the Indenture, including as to maturity, principal and interest, as Carpenter Technology may determine. The debt securities will be unsecured obligations of Carpenter Technology and will rank on a parity with all other unsecured and unsubordinated indebtedness of Carpenter Technology.

The applicable prospectus supplement will set forth the price or prices at which the debt securities to be offered will be issued and will describe the following terms of such debt securities:

- the title of such debt securities,
- any limit on the aggregate principal amount of such debt securities or the series of which they are a part,
- the person to whom interest on such debt securities will be payable,
- the date or dates on which the principal of any of such debt securities will be payable,
- the rate or rates at which any of such debt securities will bear interest, if any, the date or dates from which any such interest will accrue, the interest payment dates on which any such interest will be payable and the regular record date for any such interest payable on any interest payment date,
- the place or places where the principal of and any premium and interest on any of such debt securities will be payable,
- the period or periods within which, the price or prices at which and the terms and conditions on which any of such debt securities may be redeemed, in whole or in part, at the option of Carpenter Technology,
- the obligation, if any, of Carpenter Technology to redeem or purchase any of such debt securities pursuant to any sinking fund or analogous provision or at the option of the holder thereof, and the period or periods within which, the price or prices at which and the terms and conditions on which any of such debt securities will be redeemed or purchased, in whole or in part, pursuant to any such obligation,
- the denominations in which any of such debt securities will be issuable, if other than denominations of $1,000 and any integral multiples thereof,
- if the amount of principal of or any premium or interest on any of such debt securities may be determined with reference to an index or pursuant to a formula, the manner in which such amounts will be determined,
- if other than the currency of the United States of America, the currency, currencies or currency units in which the principal of or any premium or interest on any of such debt securities will be payable

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(and the manner in which the equivalent of the principal amount thereof in the currency of the United States of America is to be determined for any purpose, including for the purpose of determining the principal amount deemed to be outstanding at any time),

if the principal of or any premium or interest on any of such debt securities is to be payable, at the election of Carpenter Technology or the holder thereof, in one or more currencies or currency units other than those in which such debt securities are stated to be payable, the currency, currencies or currency units in which payment of any such amount as to which such election is made will be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount is to be determined),

if other than the entire principal amount thereof, the portion of the principal amount of any of such debt securities which will be payable upon declaration of acceleration of the maturity thereof,

if the principal amount payable at the stated maturity of any of such debt securities will not be determinable as of any one or more dates prior to the stated maturity, the amount which will be deemed to be such principal amount as of any such date for any purpose, including the principal amount thereof which will be due and payable upon any maturity other than the stated maturity or which will be deemed to be outstanding as of any such date (or, in any such case, the manner in which such deemed principal amount is to be determined),

if applicable, that such debt securities, in whole or any specified part, are defeasible pursuant to the provisions of the Indenture described under Defeasance and Covenant Defeasance Defeasance and Discharge or Defeasance and Covenant Defeasance Defeasance of Certain Covenants, or under both such captions,

whether any of such debt securities will be issuable in whole or in part in the form of one or more global securities and, if so, the respective Depositaries for such global securities, the form of any legend or legends to be borne by any such global security in addition to or in lieu of the legend referred to under Global Securities and, if different from those described under such caption, any circumstances under which any such global security may be exchanged in whole or in part for debt securities registered, and any transfer of such global security in whole or in part may be registered, in the names of Persons other than the Depositary for such global security or its nominee,

any addition to or change in the events of default applicable to any of such debt securities and any change in the right of the Trustee or the holders to declare the principal amount of any of such debt securities due and payable,

any addition to or change in the covenants in the Indenture, including those described under Certain Restrictive Covenants applicable to any of such debt securities; and

any other terms of such debt securities not inconsistent with the provisions of the Indenture.

Debt securities, including original issue discount securities, may be sold at a substantial discount below their principal amount. Certain special United States federal income tax considerations (if any) applicable to debt securities sold at an original issue discount may be described in the applicable prospectus supplement. In addition, certain special United States federal income tax or other considerations (if any) applicable to any debt securities which are denominated in a currency or currency unit other than United States dollars may be described in the applicable prospectus supplement.

Form, Exchange and Transfer

The debt securities of each series will be issuable only in fully registered form, without coupons, and, unless otherwise specified in the applicable prospectus supplement, only in denominations of $1,000 and any integral multiples thereof.

At the option of the holder, subject to the terms of the Indenture and the limitations applicable to global securities, debt securities of each series will be exchangeable for other debt securities of the same series of any authorized denomination and of a like tenor and aggregate principal amount.

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Subject to the terms of the Indenture and the limitations applicable to global securities, debt securities may be presented for exchange as provided above or for registration of transfer (duly endorsed or with the form of transfer endorsed thereon duly executed) at the office of the Security Registrar or at the office of any transfer agent designated by Carpenter Technology for such purpose. No service charge will be made for any registration of transfer or exchange of debt securities, but Carpenter Technology may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Such transfer or exchange will be effected upon the Security Registrar or such transfer agent, as the case may be, being satisfied with the documents of title and identity of the person making the request. Carpenter Technology has appointed the Trustee as Security Registrar. Any transfer agent (in addition to the Security Registrar) initially designated by Carpenter Technology for any debt securities will be named in the applicable prospectus supplement. Carpenter Technology may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that Carpenter Technology will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If the debt securities of any series (or of any series and specified terms) are to be redeemed in part, Carpenter Technology will not be required to (i) issue, register the transfer of or exchange any debt security of that series (or of that series and specified terms, as the case may be) during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any such debt security that may be selected for redemption and ending at the close of business on the day of such mailing or (ii) register the transfer of or exchange any debt security so selected for redemption, in whole or in part, except the unredeemed portion of any such debt security being redeemed in part.

Global Securities

Some or all of the debt securities of any series may be represented, in whole or in part, by one or more global securities which will have an aggregate principal amount equal to that of the debt securities represented thereby. Each global security will be registered in the name of a depositary or a nominee thereof identified in the applicable prospectus supplement, will be deposited with such depositary or nominee or a custodian therefor and will bear a legend regarding the restrictions on exchanges and registration of transfer thereof referred to below and any such other matters as may be provided for pursuant to the Indenture.

Notwithstanding any provision of the Indenture or any debt security described herein, no global security may be exchanged in whole or in part for debt securities registered, and no transfer of a global security in whole or in part may be registered, in the name of any person other than the depositary for such global security or any nominee of such depositary unless (i) the depositary has notified Carpenter Technology that it is unwilling or unable to continue as depositary for such global security or has ceased to be qualified to act as such as required by the Indenture, (ii) there shall have occurred and be continuing an event of default with respect to the debt securities represented by such global security or (iii) there shall exist such circumstances, if any, in addition to or in lieu of those described above as may be described in the applicable prospectus supplement. All debt securities issued in exchange for a global security or any portion thereof will be registered in such names as the depositary may direct.

As long as the depositary, or its nominee, is the registered holder of a global security, the depositary or such nominee, as the case may be, will be considered the sole owner and holder of such global security and the debt securities represented thereby for all purposes under the debt securities and the Indenture. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not be entitled to have such global security or any debt securities represented thereby registered in their names, will not receive or be entitled to receive physical delivery of certificated debt securities in exchange therefor and will not be considered to be the owners or holders of such global security or any debt securities represented thereby for any purpose under the debt securities or the Indenture. All payments of principal of and any premium and interest on a global security will be made to the depositary or its nominee, as the case may be, as the holder thereof. The

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laws of some jurisdictions require that certain purchasers of debt securities take physical delivery of such debt securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions that have accounts with the depositary or its nominee (participants) and to persons that may hold beneficial interests through participants. In connection with the issuance of any global security, the depositary will credit, on its bookentry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its participants. Ownership of beneficial interests in a global security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by the depositary (with respect to participants interests) or any such participant (with respect to interests of persons held by such participants on their behalf). Payments, transfers, exchanges and other matters relating to beneficial interests in a global security may be subject to various policies and procedures adopted by the depositary from time to time. None of Carpenter Technology, the Trustee or any agent of Carpenter Technology or the Trustee will have any responsibility or liability for any aspect of the depositary s or any participant s records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Secondary trading in notes and debentures of corporate issuers is generally settled in clearing-house or next-day funds. In contrast, beneficial interests in a global security, in some cases, may trade in the depositary s same-day funds settlement system, in which secondary market trading activity in those beneficial interests would be required by the depositary to settle in immediately available funds. There is no assurance as to the effect, if any, that settlement in immediately available funds would have on trading activity in such beneficial interests. Also, settlement for purchases of beneficial interests in a global security upon the original issuance thereof may be required to be made in immediately available funds.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, payment of interest on a debt security on any interest payment date will be made to the person in whose name such debt security (or one or more predecessor securities) is registered at the close of business on the regular record date for such interest.

Unless otherwise indicated in the applicable prospectus supplement, principal of and any premium and interest on the debt securities of a particular series will be payable at the office of such paying agent or paying agents as Carpenter Technology may designate for such purpose from time to time, except that at the option of Carpenter Technology payment of any interest may be made by check mailed to the address of the person entitled thereto as such address appears in the security register. Unless otherwise indicated in the applicable prospectus supplement, U.S. Bank National Association will be designated as Carpenter Technology s sole paying agent for payments with respect to debt securities of each series. Any other paying agents initially designated by Carpenter Technology for the debt securities of a particular series will be named in the applicable prospectus supplement. Carpenter Technology may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that Carpenter Technology will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by Carpenter Technology to a paying agent for the payment of the principal of or any premium or interest on any debt security which remain unclaimed for two years after such principal premium or interest has become due and payable will be repaid to Carpenter Technology, and the holder of such debt security thereafter may look only to Carpenter Technology for payment thereof.

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Certain Definitions

Attributable Debt means, as to any particular lease under which any person is at the time liable and at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid by such person under such lease during the remaining primary term thereof, discounted from the respective due dates thereof to such date at the same rate per annum as the rate of interest borne by the outstanding debt securities, on a weighted average basis. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of the rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

Capital Stock, as applied to the stock of any corporation, means the capital stock of every class whether now or hereafter authorized, regardless of whether such capital stock shall be limited to a fixed sum or percentage with respect to the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of such corporation.

Consolidated Net Tangible Assets means the aggregate amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (i) all liabilities other than (a) deferred income taxes, (b) Funded Debt and (c) shareholders equity (including all preferred stock whether or not redeemable) and (ii) all goodwill, trade names, trademarks, patents, organization expenses and other like intangibles, all as set forth on the most recent balance sheet of Carpenter Technology and its consolidated Subsidiaries and computed in accordance with generally accepted accounting principles.

Funded Debt means (i) all indebtedness for money borrowed having a maturity of more than 12 months from the date as of which the determination is made or having a maturity of 12 months or less but by its terms being renewable or extendible beyond 12 months from such date at the option of the borrower and (ii) rental obligations payable more than 12 months from such date under leases which are capitalized in accordance with generally accepted accounting principles (such rental obligations to be included as Funded Debt at the amount so capitalized at the date of such computation and to be included for the purposes of the definition of Consolidated Net Tangible Assets both as an asset and as Funded Debt at the respective amounts so capitalized).

Principal Property means any manufacturing or processing plant or warehouse owned at the date of the Indenture or thereafter acquired by Carpenter Technology or any Restricted Subsidiary of Carpenter Technology which is located within the United States of America and the gross book value (including related land and improvements thereon and all machinery and equipment included therein without deduction of any depreciation reserves) of which on the date as of which the determination is being made exceeds 2% of Consolidated Net Tangible Assets, other than (i) any property which in the opinion of Carpenter Technology s Board of Directors is not of material importance to the total business conducted by Carpenter Technology as an entirety or (ii) any portion of a particular property which is similarly found not to be of material importance to the use or operation of such property.

Restricted Subsidiary means a Subsidiary of Carpenter Technology (i) substantially all the property of which is located, or substantially all the business of which is carried on, within the United States of America and (ii) which owns a Principal Property.

Subsidiary means any corporation more than 50% of the outstanding voting stock of which is owned or controlled, directly or indirectly, by (i) Carpenter Technology, (ii) Carpenter Technology and one or more Subsidiaries or (iii) one or more Subsidiaries. For the purposes of this definition, voting stock means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class has such voting power by reason of any contingency.

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U.S. Government Obligation means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any U.S. Government Obligation which is specified in clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any such payment of principal of or interest on any U.S. Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

Certain Covenants of Carpenter Technology

Restrictions on Secured Debt

If Carpenter Technology or any Restricted Subsidiary shall incur, issue, assume or guarantee any loans or notes, bonds, debentures or other similar evidences of indebtedness for money borrowed (Debt) secured by a mortgage, pledge or lien (Mortgage) on any Principal Property of Carpenter Technology or any Restricted Subsidiary, or on any shares of Capital Stock or Debt of any Restricted Subsidiary, Carpenter Technology will provide or cause such Restricted Subsidiary to provide that the debt securities (together with, if Carpenter Technology shall so determine, any other Debt of Carpenter Technology or such Restricted Subsidiary then existing or thereafter created which is not subordinated to the debt securities) be secured equally and ratably with (or, at Carpenter Technology s option, prior to) such secured Debt, unless, after giving effect thereto, the aggregate amount of all such secured Debt, together with all Attributable Debt of Carpenter Technology and its Restricted Subsidiaries with respect to sale and leaseback transactions involving Principal Properties (with the exception of such transactions which are excluded as described in Restrictions on Sales and Leasebacks below), would not exceed 5% of Consolidated Net Tangible Assets.

The above restrictions will not apply to, and there will be excluded from secured Debt in any computation under such restriction, Debt secured by (i) Mortgages on property of, or on any shares of Capital Stock of or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary, (ii) Mortgages in favor of Carpenter Technology or a Restricted Subsidiary, (iii) Mortgages in favor of governmental bodies to secure progress, advance or other payments, (iv) Mortgages on property, shares of Capital Stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) and purchase money and construction Mortgages which are entered into within specified time limits, (v) Mortgages securing industrial revenue or pollution control bonds and (vi) any extension, renewal or replacement, as a whole or in part, of any Mortgage referred to in the foregoing clauses (i) through (v) inclusive so long as such extension, renewal or replacement is limited to all or part of the same property, shares of Capital Stock or Debt that secured the Mortgage extended, renewed or replaced (plus improvements on such property).

Restrictions on Sales and Leasebacks

Neither Carpenter Technology nor any Restricted Subsidiary will enter into any sale and leaseback transaction involving any Principal Property, unless, after giving effect thereto, the aggregate amount of all Attributable Debt with respect to such transactions plus all Debt secured by Mortgages on Principal Properties or shares of Capital Stock or Debt of a Restricted Subsidiary (with the exception of secured Debt which is excluded as described in Restrictions on Secured Debt above) would not exceed 5% of Consolidated Net Tangible Assets.

The above restrictions will not apply to, and there will be excluded from Attributable Debt in any computation under such restriction, any sale and leaseback transaction if (i) the lease is for a period, including renewal rights, of not in excess of three years, (ii) the sale and leaseback transaction of the Principal Property is

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made prior to, at the time of or within 180 days after its acquisition or construction, (iii) the lease secures or relates to industrial revenue or pollution control bonds, (iv) the transaction is between Carpenter Technology and a Restricted Subsidiary or between Restricted Subsidiaries or (v) Carpenter Technology or such Restricted Subsidiary within 180 days after the sale or transfer applies an amount equal to the greater of the net proceeds of the sale of the Principal Property leased pursuant to such arrangement or the fair market value of the Principal Property so leased at the time of entering into such arrangement to (a) the retirement of the debt securities or certain Funded Debt of Carpenter Technology ranking on a parity or senior to the debt securities or Funded Debt of a Restricted Subsidiary or (b) the purchase of other property which will constitute Principal Property having a fair market value, in the opinion of Carpenter Technology s Board of Directors, at least equal to the fair market value of the Principal Property so leased. The amount to be applied to the retirement of such Funded Debt of Carpenter Technology or a Restricted Subsidiary shall be reduced by (x) the principal amount of any debt securities (or other notes or debentures constituting such Funded Debt) delivered within such 180-day period to the Trustee or other applicable trustee for retirement and cancellation and (y) the principal amount of such Funded Debt other than items referred to in the preceding clause (x), voluntarily retired by Carpenter Technology or a Restricted Subsidiary within 180 days after such sale, provided that, notwithstanding the foregoing, no retirement referred to in this paragraph may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

Except as described in Restrictions on Secured Debt and Restrictions on Sales and Leasebacks, the Indenture does not contain any covenants or provisions that may afford holders of the debt securities protection in the event of a highly leveraged transaction.

Successor Company

The Indenture provides that no consolidation or merger of Carpenter Technology with or into any other corporation and no conveyance, transfer or lease of its properties and assets substantially as an entirety to any person may be made unless (i) the corporation formed by or resulting from any such consolidation or merger or which shall have received the transfer of such property and assets shall be a corporation organized and existing under the laws of the United States, any State thereof or the District of Columbia and shall expressly assume by a supplemental indenture payment of the principal of, premium (if any) and interest on the debt securities and the performance and observance of the Indenture, (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default shall have occurred and be continuing and (iii) Carpenter Technology shall have delivered to the Trustee an officers certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance, transfer or lease, and if a supplemental indenture is required for such transaction, such supplemental indenture, complies with the above requirements of the Indenture.

Events of Default

Each of the following constitutes an Event of Default under the Indenture with respect to the debt securities of any series: (a) failure to pay principal of or any premium on any debt security of that series at its maturity; (b) failure to pay any interest on any debt securities of that series when due, and continuance of such failure for a period of 30 days; (c) failure to deposit any sinking fund payment, when due, in respect of any debt security of that series; (d) failure to perform, or breach of, any other covenant of Carpenter Technology in the Indenture (other than a covenant or warranty included in the Indenture solely for the benefit of a series other than that series), continued for 60 days after written notice has been given by the Trustee, or the holders of at least 25% in principal amount of the Outstanding debt securities of that series as provided in the Indenture; (e) certain defaults by Carpenter Technology or any of its Restricted Subsidiaries under any bond, debenture, note or other evidence of indebtedness for money borrowed in excess of $3,000,000, under any capitalized lease or under any mortgage, indenture or instrument, which default (i) consists of a failure to pay any such indebtedness or liability upon its stated maturity or (ii) results in such indebtedness or liability becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, and continuance thereof for

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10 days after written notice has been given by the Trustee, or the holders of at least 25% in principal amount of the outstanding debt securities of that series, as provided in the Indenture; (f) certain events of bankruptcy, insolvency or reorganization; and (g) any other Event of Default provided with respect to debt securities of that series.

If an Event of Default (other than an Event of Default described in clause (f) above) with respect to the debt securities of any series at the time outstanding shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series by notice as provided in the Indenture may declare the principal amount of the debt securities of that series (or, in the case of any security that is an original issue discount security or the principal amount of which is not then determinable, such portion of the principal amount of such security, or such other amount in lieu of such principal amount, as may be specified in the terms of such security) to be due and payable immediately. If an Event of Default described in clause (f) above with respect to the debt securities of any series at the time outstanding shall occur, the principal amount of all the debt securities of that series (or, in the case of any such original issue discount security or other security, such specified amount) will automatically, and without any action by the Trustee or any holder, become immediately due and payable. After any such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may, under certain circumstances, rescind and annul such acceleration if Carpenter Technology has paid or deposited with the Trustee all sums sufficient to pay overdue interest and other amounts required under the Indenture and all Events of Default, other than the non-payment of accelerated principal (or other specified amount), have been cured or waived as provided in the Indenture. For information as to waiver of defaults, see Modification and Waiver.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the debt securities of that series, provided that such direction shall not be in conflict with any rule of law or the Indenture, the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and such direction shall not involve the Trustee in personal liability or be unjustly prejudicial to holders not joining therein.

No holder of a debt security of any series will have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the debt securities of that series, (ii) the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and such holder or holders have offered reasonable indemnity, to the Trustee to institute such proceeding as trustee and (iii) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with such request, within 60 days after such notice, request and offer of indemnity. However, such limitations do not apply to a suit instituted by a holder of a debt security for the enforcement of payment of the principal of or any premium or interest on such debt security on or after the applicable due date specified in such debt security. Carpenter Technology will be required to furnish to the Trustee annually a statement by certain of its officers as to whether or not Carpenter Technology, to its knowledge, is in default in the performance or observance of any of the terms, provisions and conditions of the Indenture and, if so, specifying all such known defaults.

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Modification and Waiver

Modifications and amendments of the Indenture may be made by Carpenter Technology and the Trustee with the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series affected by such modification or amendment; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding debt security affected thereby, (a) change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security, (b) reduce the principal amount of, or any premium payable upon redemption or interest on, any debt security, (c) reduce the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity thereof, (d) change the place or currency of payment of principal of, or any premium or interest on, any debt security, (e) impair the right to institute suit for the enforcement of any payment on or with respect to any debt security, (f) reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the Indenture, (g) reduce the percentage in principal amount of outstanding debt securities of any series necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults or (h) modify such provisions with respect to modification and waiver.

Modifications and amendments of the Indenture may be made by Carpenter Technology and the Trustee without the consent of the holders to (a) evidence the succession of any person to Carpenter Technology, (b) add to the covenants of Carpenter Technology for the benefit of the holders of all or any series of debt securities, (c) add additional Events of Default for the benefit of the holders of all or any series of debt securities, (d) permit or facilitate the issuance of securities of any series in bearer form or uncertificated form, (e) add, change or eliminate any provision of the Indenture in respect of one or more series of debt securities so long as these additions, changes or eliminations do not apply to debt securities of any series created prior to such additions, changes or eliminations and entitled to the benefit of such provisions, or modify the rights of any holder of any such debt securities with respect to such provisions, or become effective only after these debt securities are no longer outstanding, (f) secure the debt securities, (g) create new series of debt securities as permitted under the Indenture, (g) provide for a successor trustee under the Indenture or (h) cure any ambiguity or correct or supplement any provision of the Indenture that is defective so long as such action does not adversely affect the interests of the holders of debt securities of any series in any material respect.

The holders of a majority in principal amount of the outstanding debt securities of any series may waive compliance by Carpenter Technology with certain restrictive provisions of the Indenture. The holders of a majority in principal amount of the outstanding debt securities of any series may waive any past default under the Indenture, except a default in the payment of principal, premium or interest and certain covenants and provisions of the Indenture which cannot be amended without the consent of the holder of each outstanding debt security of such series affected.

The Indenture provides that in determining whether the holders of the requisite principal amount of the outstanding debt securities have given or taken any direction, notice, consent, waiver or other action under the Indenture as of any date, (i) the principal amount of an original issue discount security that will be deemed to be outstanding will be the amount of the principal thereof that would be due and payable as of such date upon acceleration of the maturity thereof to such date, (ii) if, as of such date, the principal amount payable at the stated maturity of a debt security is not determinable (for example, because it is based on an index), the principal amount of such debt security deemed to be outstanding as of such date will be an amount determined in the manner prescribed for such debt security and (iii) the principal amount of a debt security denominated in one or more foreign currencies or currency units that will be deemed to be outstanding will be the U.S. dollar equivalent, determined as of such date in the manner prescribed for such debt security, of the principal amount of such debt security (or, in the case of a security described in clause (i) or (ii) above, of the amount described in such clause). Certain debt securities, including those for whose payment or redemption money has been deposited or set aside in trust for the holders and those that have been fully defeased pursuant to Section 1302 of the Indenture, will not be deemed to be outstanding.

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Except in certain limited circumstances, Carpenter Technology will be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver or other action under the Indenture, in the manner and subject to the limitations provided in the Indenture. In certain limited circumstances, the Trustee also will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series such action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, such action must be taken by holders of the requisite principal amount of such debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or such shorter period as may be specified by Carpenter Technology (or the Trustee, if it set the record date), and may be shortened or lengthened (but not beyond 180 days) from time to time.

Defeasance and Covenant Defeasance

If and to the extent indicated in the applicable prospectus supplement, Carpenter Technology may elect, at its option at any time, to have the provisions of Section 1302 of the Indenture, relating to defeasance and discharge of indebtedness, or Section 1303 of the Indenture, relating to defeasance of certain restrictive covenants in the Indenture, applied to the debt securities of any series, or to any specified part of a series.

Defeasance and Discharge

The Indenture provides that, upon Carpenter Technology s exercise of its option (if any) to have Section 1302 of the Indenture apply to any debt securities, Carpenter Technology will be discharged from all its obligations with respect to such debt securities (except for certain obligations to exchange or register the transfer of debt securities, to replace stolen, lost or mutilated debt securities, to maintain paying agencies and to hold moneys for payment in trust) upon the deposit in trust for the benefit of the holders of such debt securities of money or U.S. Government Obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of and any premium and interest on such debt securities on the respective stated maturities in accordance with the terms of the Indenture and such debt securities. Such defeasance or discharge may occur only if, among other things, Carpenter Technology has delivered to the Trustee an opinion of counsel to the effect that Carpenter Technology has received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of such debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge were not to occur.

Defeasance of Certain Covenants

The Indenture provides that, upon Carpenter Technology s exercise of its option (if any) to have Section 1303 of the Indenture apply to any debt securities, Carpenter Technology may omit to comply with certain restrictive covenants, including those described under Certain Covenants of Carpenter Technology, under Successor Company, any that may be described in the applicable prospectus supplement, and the occurrence of certain Events of Default, which are described above in clause (d) (with respect to such restrictive covenants) and clause (e) under Events of Default and any that may be described in the applicable prospectus supplement, will be deemed not to be or result in an Event of Default, in each case with respect to such debt securities. Carpenter Technology, in order to exercise such option, will be required to deposit, in trust for the benefit of the holders of such debt securities, money or U.S. Government Obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of and any premium and interest on such debt securities on the respective stated maturities in accordance with the terms of the Indenture and such debt securities. Carpenter Technology will also be required, among other things, to deliver to the Trustee an opinion of counsel to the effect that holders of such debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit

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and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and defeasance were not to occur. In the event Carpenter Technology exercised this option with respect to any debt securities and such debt securities were declared due and payable because of the occurrence of any Event of Default, the amount of money and U.S. Government Obligations so deposited in trust would be sufficient to pay amounts due on such debt securities at the time of their respective stated maturities but may not be sufficient to pay amounts due on such debt securities upon any acceleration resulting from such Event of Default. In such case, Carpenter Technology would remain liable for such payments.

Notices

Notices to holders of debt securities will be given by mail to the addresses of such holders as they may appear in the Security Register.

Title

Carpenter Technology, the Trustee and any agent of Carpenter Technology or the Trustee may treat the Person in whose name a debt security is registered as the absolute owner thereof (whether or not such debt security may be overdue) for the purpose of making payment and for all other purposes.

Governing Law

The Indenture and the debt securities will be governed by, and construed in accordance with, the law of the State of New York.

Regarding The Trustee

U.S. Bank National Association is the successor Trustee to Morgan Guaranty Trust Company of New York and U.S. Bank Trust National Association under the Indenture.

Upon the occurrence of an Event of Default, the Trustee may be deemed to have a conflicting interest with respect to the debt securities for purposes of the Trust Indenture Act of 1939, as amended, and, accordingly, may be required to resign as Trustee under the Indenture.

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PLAN OF DISTRIBUTION

We may offer and sell the debt securities in any one or more of the following ways:

- to or through underwriters, brokers or dealers,
- directly to one or more other purchasers,
- through a block trade in which the broker or dealer engaged to handle the block trade will attempt to sell the debt securities as agent, but may position and resell a portion of the block as principal to facilitate the transaction,
- through agents on a best-efforts basis, or
- otherwise through a combination of any of the above methods of sale.

Each time we sell debt securities, we will provide a prospectus supplement that will name any underwriter, dealer or agent involved in the offer and sale of the debt securities. The prospectus supplement will also set forth the terms of the offering, including:

- the purchase price of the debt securities and the proceeds we will receive from the sale of the debt securities,
- any underwriting discounts and other items constituting underwriters compensation,
- any public offering or purchase price and any discounts or commissions allowed or re-allowed or paid to dealers,
- any commissions allowed or paid to agents,
- any debt securities exchanges on which the debt securities may be listed,
- the method of distribution of the debt securities,
- the terms of any agreement, arrangement or understanding entered into with the underwriters, brokers or dealers, and
- any other information we think is important.

If underwriters or dealers are used in the sale, the debt securities will be acquired by the underwriters or dealers for their own account. The debt securities may be sold from time to time in one or more transactions:

- at a fixed price or prices, which may be changed,
- at market prices prevailing at the time of sale,
- at prices related to such prevailing market prices,
- at varying prices determined at the time of sale, or
- at negotiated prices.

Such sales may be effected:

- in transactions on any national securities exchange or quotation service on which the debt securities may be listed or quoted at the time of sale,
- in transactions in the over-the-counter market,
- in block transactions in which the broker or dealer so engaged will attempt to sell the debt securities as agent but may position and resell a portion of the block as principal to facilitate the transaction, or in crosses, in which the same broker acts as an agent on both sides of the trade,
- through the writing of options, or
- through other types of transactions.

The debt securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more of such firms. Unless otherwise set forth in the applicable prospectus supplement, the obligations of underwriters or dealers to purchase the debt securities offered will be subject to certain conditions precedent and the underwriters or dealers will be obligated to

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purchase all the offered debt securities if any are purchased. Any public offering price and any discount or concession allowed or reallowed or paid by underwriters or dealers to other dealers may be changed from time to time.

The debt securities may be sold directly by us or through agents designated by us from time to time. Any agent involved in the offer or sale of the debt securities in respect of which this prospectus is delivered will be named, and any commissions payable by us to such agent will be set forth in, the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

Offers to purchase the debt securities offered by this prospectus may be solicited, and sales of the debt securities may be made, by us directly to institutional investors or others, who may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale of the debt securities. The terms of any offer made in this manner will be included in the prospectus supplement relating to the offer.

If indicated in the applicable prospectus supplement, we will authorize underwriters, dealers or agents to solicit offers by certain institutional investors to purchase debt securities from us pursuant to contracts providing for payment and delivery at a future date. Institutional investors with which these contracts may be made include, among others:

- commercial and savings banks,
- insurance companies,
- pension funds,
- investment companies, and
- educational and charitable institutions.

In all cases, these purchasers must be approved by us. Unless otherwise set forth in the applicable prospectus supplement, the obligations of any purchaser under any of these contracts will not be subject to any conditions except that (a) the purchase of the debt securities must not at the time of delivery be prohibited under the laws of any jurisdiction to which that purchaser is subject, and (b) if the debt securities are also being sold to underwriters, we must have sold to these underwriters the debt securities not subject to delayed delivery.

Underwriters and other agents will not have any responsibility in respect of the validity or performance of these contracts.

Some of the underwriters, dealers or agents used by us in any offering of debt securities under this prospectus may be customers of, engage in transactions with, and perform services for us or other affiliates of ours in the ordinary course of business. Underwriters, dealers, agents and other persons may be entitled under agreements which may be entered into with us to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act, and to be reimbursed by us for certain expenses.

Subject to any restrictions relating to debt securities in bearer form, any debt securities initially sold outside the United States may be resold in the United States through underwriters, dealers or otherwise.

Any underwriters to which offered debt securities are sold by us for public offering and sale may make a market in such debt securities, but those underwriters will not be obligated to do so and may discontinue any market making at any time.

The anticipated date of delivery of the debt securities offered by this prospectus will be described in the applicable prospectus supplement relating to the offering.

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If more than 10 percent of the net proceeds of any offering of debt securities made under this prospectus will be received by members of the Financial Industry Regulatory Authority, which we refer to in this prospectus as FINRA, participating in the offering or by affiliates or associated persons of such FINRA members, the offering will be conducted in accordance with NASD Conduct Rule 210(h). The maximum compensation we will pay to underwriters in connection with any offering of the debt securities will not exceed 8% of the maximum proceeds of such offering.

To comply with the debt securities laws of some states, if applicable, the debt securities may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the debt securities may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

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LEGAL MATTERS

Certain legal matters in connection with the offered debt securities will be passed upon for us by Pepper Hamilton LLP.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated into this prospectus by reference to the Annual Report on Form 10-K for the year ended June 30, 2010 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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CARPENTER TECHNOLOGY CORPORATION

Debt Securities

P R O S P E C T U S

June 27, 2011

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. Other Expenses of Issuance and Distribution

The following table sets forth expenses payable by Carpenter Technology Corporation in connection with the issuance and distribution of the debt securities being registered. All the amounts shown are estimates.

SEC registration fee	$ 0*
Printing expenses	15,000
Legal fees and expenses	50,000
Accounting fees and expenses	15,000
Fees and expenses of trustee and counsel	10,000
Miscellaneous	5,000
Total*	$ 95,000

* Applicable SEC registration fees have been deferred in accordance with Rules 456(b) and 457(r) of the Securities Act of 1933 and are not estimable at this time.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145(a) of the Delaware General Corporation Law provides, in general, that a corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, because the person is or was a director or officer of the corporation. Such indemnity may be against expenses, including attorneys fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and if, with respect to any criminal action or proceeding, the person did not have reasonable cause to believe the person s conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law provides, in general, that a corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor because the person is or was a director or officer of the corporation, against any expenses (including attorneys fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to be indemnified for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145(g) of the Delaware General Corporation Law provides, in general, that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation against any liability asserted against the person in any such capacity, or arising out of the person s status as such, whether or not the corporation would have the power to indemnify the person against such liability under the provisions of the law.

We maintain directors and officers liability insurance for our directors and officers.

Our restated certificate of incorporation provides that the liability of our directors for monetary damages shall be eliminated to the fullest extent permissible under Delaware law. Pursuant to Delaware law, this includes

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elimination of liability for monetary damages for breach of our directors fiduciary duty of care to Carpenter Technology Corporation and our stockholders. These provisions do not eliminate our directors duty of care, however, and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of such director s duty of loyalty to Carpenter Technology Corporation, for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for any transaction from which the director derived an improper personal benefit, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. These provisions also do not affect a director s responsibilities under any other laws, such as federal securities laws or state or federal environmental laws.

We have entered into indemnification agreements with each of our non-executive directors and certain of our executive officers. Pursuant to these agreements, we have agreed to indemnify those directors and executive officers for all expenses and losses incurred in any proceedings filed by a third party (other than proceedings by or in the right of our company) to the fullest extent permitted by law. In proceedings by or in the right of the company, those directors and executive officers will be indemnified for all expenses, losses and damages actually and reasonably incurred in connection with such proceedings to the fullest extent permitted by law, but not for expenses for which they are finally adjudged by a court to be liable to us unless a court has determined in view of all the circumstances of the case that such director or executive officers is fairly and reasonably entitled to indemnification. We will not be liable for indemnity for any costs covered by insurance, for any accounting for profits from the purchase or sale of securities in violation of Section 16(b) of the Securities exchange Act of 1934 or for proceedings brought by those directors or executive officers against us prior to a change of control unless such proceedings were previously approved by our board of directors or we agree in our sole discretion to indemnify under applicable law. We have agreed to advance expenses to our directors and executive officers seeking indemnification under their indemnification agreement without security or interest provided that those directors or executive officers undertake in writing to repay the advance if it is ultimately determined that they are not entitled to indemnification. The burden is on us to prove that our directors or executive officers are not entitled to indemnification. Any settlement must be mutually approved by us and our director or executive officer, as applicable, subject to certain requirements, with such approval not to be unreasonably withheld. The indemnification agreements are not intended as exclusive remedies and supplement any insurance or other remedies in law or equity that the directors or executive officers may have.

The foregoing statements are subject to the detailed provisions of Section 145 of the Delaware General Corporation Law, our restated certificate of incorporation and by-laws, as amended to date, and our indemnification agreements.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Reference is made to Item 17 for our undertakings with respect to indemnification for liabilities arising under the Securities Act.

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ITEM 16. EXHIBITS

Exhibit No.	Description
1.1	Underwriting Agreement for the debt securities.*
4.1	Indenture dated as of January 12, 1994, between Carpenter and U.S. Bank National Association as successor Trustee to Morgan Guaranty Trust Company of New York and U.S. Bank Trust National Association is incorporated by reference to Exhibit 4(C) to Carpenter s Registration Statement No. 33-51613, as filed on Form S-3 on January 6, 1994.
4.2	First Supplemental Indenture dated May 22, 2003, between Carpenter and U.S. Bank National Association as successor Trustee to Morgan Guaranty Trust Company of New York and U.S. Bank Trust National Association is incorporated herein by reference to Exhibit 4(I) of Carpenter s 2003 Annual Report on Form 10-K filed in September 12, 2003.
4.3	Second Supplemental Indenture to the Indenture for the debt securities.*
4.4	Form of debt securities.*
5.1	Opinion of Pepper Hamilton LLP (filed herewith).
12.1	Computation of Ratios of Earnings to Fixed Charges Calculations (unaudited) (filed herewith).
23.1	Consent of PricewaterhouseCoopers LLP (filed herewith).
23.2	Consent of Pepper Hamilton LLP (contained in exhibit 5.1).
24.1	Powers of Attorney in favor of William A. Wulfsohn or K. Douglas Ralph (included on signature page) (filed herewith).
25.1	Statement of eligibility and qualification on Form T-1 of U.S. Bank National Association with respect to the Indenture (filed herewith).

* To be filed by current Report on Form 8-K at the time of issuance.

ITEM 17. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

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provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) Each prospectus filed by a Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned Registrant undertakes that in a primary offering of securities of such undersigned Registrant pursuant to the registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, such undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of such undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of such undersigned Registrant or used or referred to by such undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about such undersigned Registrant or its securities provided by or on behalf of such undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by such undersigned Registrant to the purchaser.

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(b) The undersigned Registrant hereby further undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of such Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, such Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Reading, Pennsylvania, on June 27, 2011.

CARPENTER TECHNOLOGY CORPORATION

By: /s/ William A. Wulfsohn
Name: William A. Wulfsohn

Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints William A. Wulfsohn and K. Douglas Ralph or any of them his or her true and lawful agent, proxy and attorney in fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments (including post effective amendments) to this registration statement together with all schedules and exhibits thereto, (ii) act on, sign and file such certificates, instruments, agreements and other documents as may be necessary or appropriate in connection therewith, (iii) act on and file any supplement to any prospectus included in this registration statement or any such amendment, and (iv) take any and all actions which may be necessary or appropriate in connection therewith, granting unto such agent, proxy and attorney in fact full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, hereby approving, ratifying and confirming all that such agents, proxies and attorneys in fact or any of their substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, as amended this registration statement has been signed by the following persons in the following capacities on the dates indicated.

Signature	Title	Date
/s/ William A. Wulfsohn Name: William A. Wulfsohn	President and Chief Executive Officer and Director (principal executive officer)	June 27, 2011
/s/ K. Douglas Ralph Name: K. Douglas Ralph	Senior Vice President and Chief Financial Officer (principal financial officer)	June 27, 2011
/s/ Thomas F. Cramsey Name: Thomas F. Cramsey	Vice President and Chief Accounting Officer (principal accounting officer)	June 27, 2011
/s/ Carl G. Anderson, Jr. Name: Carl G. Anderson, Jr.	Director	June 27, 2011
/s/ Dr. Philip M. Anderson Name: Dr. Philip M. Anderson	Director	June 27, 2011

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/s/ Martin Inglis	Director	June 27, 2011
Name: Martin Inglis		
	Director	
Name: Robert R. McMaster		
	Chairman and Director	
Name: Gregory A. Pratt		
/s/ Peter N. Stephans	Director	June 27, 2011
Name: Peter N. Stephans		
/s/ Kathryn C. Turner	Director	June 27, 2011
Name: Kathryn C. Turner		
/s/ Dr. Jeffrey Wadsworth	Director	June 27, 2011
Name: Dr. Jeffrey Wadsworth		
/s/ Stephen M. Ward, Jr.	Director	June 27, 2011
Name: Stephen M. Ward, Jr.		

e Annual Meeting, we recommend that you 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 of our common stock, 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 those shares at the Annual Meeting.

How does the Board recommend that I vote my shares, and what vote is required for approval of each proposal at the Annual Meeting?

Proposal	Board	Available Voting	Voting Approval	Effect of an	Effect of a

	Recommendation	Options	Standard	Abstention	Broker Non-Vote
1. Election of nine directors	**FOR** each of the nine nominees	FOR; AGAINST; or ABSTAIN, with respect to each nominee	A nominee who receives a majority of all votes cast for such nominee is elected as a director	No Effect	No Effect
2. Advisory vote relating to executive compensation	**FOR**	FOR; AGAINST; or ABSTAIN	Majority of all votes cast for the proposal	No Effect	No Effect
3. Advisory vote on the frequency of future advisory votes relating to executive compensation	**EVERY YEAR**	EVERY YEAR; EVERY TWO YEARS; EVERY THREE YEARS; or ABSTAIN	The choice of frequency that receives the greatest number of votes is considered the preference of our stockholders	No Effect	No Effect
4. Ratification of Ernst & Young as our independent registered public accounting firm	**FOR**	FOR; AGAINST; or ABSTAIN	Majority of all votes cast for the proposal	No Effect	Not Applicable

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If I submit my proxy, how will my shares of common stock be voted?

How do you Hold your Shares?	How Your Shares will be Voted if You Specify How to Vote:	How Your Shares will be Voted if You Do Not Specify How to Vote:
Stockholder of Record (your shares are registered in your name)	The named proxies will vote your shares as you direct on the proxy card.	The named proxies will vote as recommended by the Board of Directors. In the case of Proposal 1, that means your shares will be voted **FOR** each director nominee. In the case of Proposals 2 and 4, that means your shares will be voted **FOR** each proposal. In the case of Proposal 3, that means your shares will be voted for the **EVERY YEAR** option.
Beneficial Owner (your shares are held in street name)	Your bank or broker will vote your shares as you direct them to.	Your bank or broker may use its discretion to vote only on items deemed by the NYSE to by routine , such as Proposal 4 - Ratification of Auditors. For non-routine items, such as Proposal 1, 2, and 3, your shares will be considered uninstructed and result in a broker non-vote.

How are abstentions and broker non-votes treated?

Under NYSE rules, brokers or other nominees who hold shares for a beneficial owner have the discretion to vote on a limited number of routine proposals when they have not received voting instructions from the beneficial owner at least ten days prior to the annual meeting. A broker non-vote occurs when a broker or other nominee does not receive such voting instructions and does not have the discretion to vote the shares. Pursuant to Maryland law, abstentions and broker non-votes are not included in the determination of the shares of common stock voting on such matters, but are counted for quorum purposes.

The only routine matter to be voted on at our Annual Meeting is Proposal 4 - Ratification of Auditors. Therefore, if you do not provide voting instructions to your broker or other nominee, your broker or other nominee may only vote your shares on Proposal 4.

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. For more information regarding the effect of abstentions and broker non-votes on the outcome of a vote, please see *How does the Board recommend that I vote my shares, and what vote is required for approval of each Proposal at the Annual Meeting?* and *If I submit my proxy, how will my shares be voted?*

Can I change my vote after submitting my proxy?

You may change your vote at any time before the proxy is exercised. For holders of record of our common stock, 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

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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 Wednesday, May 17, 2017, at The Grand Hotel, 615 2nd Avenue South, Minneapolis, MN 55402. Only stockholders who own shares of our common stock as of the record date, March 23, 2017, 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*. 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 23, 2017. 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 of common stock are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you will need to present the following items 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 of common stock 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

- 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.

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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

1-866-540-7095

If you participate in householding and would like to receive a separate copy of our 2016 Annual Report, Notice of Availability or proxy statement, please contact Broadridge in the manner described 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 Sodali 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

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PROPOSAL 1: ELECTION OF DIRECTORS

Board Composition

Pursuant to our Bylaws, our directors are elected by stockholders each year at our annual meeting to serve terms expiring at the next annual meeting. Our 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 nine directors, each to hold office until our annual meeting of stockholders to be held in 2018 or until his or her successor is duly elected and qualified. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Information concerning each of the nine 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 or for good cause will not serve, 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.

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Director Nominees

E. Spencer Abraham

Background: E. Spencer Abraham is an independent member of our Board of Directors and has served as a director of our company since May 2014. Since 2011, 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 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 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; Uranium Energy Corp. (NYSE: UEC), where he is the Chairman of the board; and NRG Energy, Inc. (NYSE: NRG), where he is a member of its compensation and nuclear oversight committees. 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. Mr. Abraham also serves on the board of trustees for the California Institute of Technology and 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.

Director since: 2014

Age: 64

Board Committees:

Compensation (Chair), Nominating and Corporate Governance

James J. Bender

Background: James J. Bender 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 December 2002 to December 2011, he served as General Counsel and Corporate Secretary of The Williams Companies Inc. and, from September 2005 to December 2011, he also served as General Counsel of Williams Partners GP LLC, the general partner of Williams Partners L.P. 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. 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 serves on the senior advisory board of Orion Energy Partners. Mr. Bender served as director and Chairman of the board of directors for Apco Oil & Gas International Inc.

(NASDAQ: APAGF), an affiliate of WPX Energy, Inc., from December 2013 to August 2014. 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

Director since: 2013

Age: 60

Board Committees:

Compensation,

Nominating and Corporate Governance (Chair)

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	of corporate governance, regulatory matters and issues applicable to a public company and its board of directors.

Stephen G. Kasnet

Director since: 2009

Age: 71

Board Committees:

Audit (Chair),

Nominating and Corporate Governance,

Risk Oversight

Background: Stephen G. Kasnet is an independent member and the non-Executive Vice Chairman of our Board of Directors. He 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 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 served as director and Chairman of Juniper Pharmaceuticals, Inc. (formerly Columbia Laboratories, Inc.), a specialty pharmaceuticals company (NASDAQ: JNP), from 2004 through July 2015, and 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, including Pioneer Group, Inc., First Winthrop Corporation and Winthrop Financial Associates, and Cabot, Cabot and Forbes. He serves as a director of First Ipswich Bank and as a director of Tenon Ltd., a wood products company (his term at Tenon Ltd. is scheduled to end in May 2017 following the sale of the company). He is also a trustee of the Governor s Academy, a private coed boarding high school in Byfield, Massachusetts. He formerly served as director of Republic Engineered Products and FTD, Inc. 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.

Lisa A. Pollina

Background: Lisa A. Pollina is an independent member of our Board of Directors and has served as a director of our company since November 2015. Ms. Pollina has extensive experience in the financial services industry, having most recently served as Vice Chairman for RBC Capital Markets, a division of the Royal Bank of Canada (RBC) (NYSE: RY). Prior to her appointment as Vice Chairman in 2012, she was the senior advisor to the chief executive officer for RBC International, where she also served as senior advisor for the boards of RBC Canadian Trust Company and the RBC Dexia Holding Company. Prior to joining RBC, Ms. Pollina served as the Global Financial Institutions Executive in the global corporate banking division of Bank of America and was a founding partner of Bordeaux Capital, a strategic and financial advisory firm that emerged from Barclays

Capital in 2002. Ms. Pollina is a member of the Financial Services Roundtable in Washington D.C. where she was Vice Chair of the Lending and Leasing Policy Committee for the United States. She is also an appointee to the Federal Reserve Bank of the United States Working Group on Global Markets. She has served as an independent director of the Depository Trust and Clearing Corporation since June 2016 and as a member of the senior advisory board of Oliver Wyman since

Director since: 2015

Age: 52

Board Committees:

Risk Oversight (Chair)

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	November 2015. Ms. Pollina previously served as a member of the Board of Directors for Ritchie Brothers Auctioneers (NYSE: RBA) from May 2015 to May 2016. A MBA Graduate of Yale University, Ms. Pollina also taught strategy at Yale and Corporate Finance at the University of Chicago. We believe Ms. Pollina is qualified to serve as a director of the Company because of her extensive experience and expertise in the financial services industry.

William Roth

Background: William Roth is our Chief Investment Officer and has served as a director of our company since May 2015. Mr. Roth was appointed Chief Investment Officer in January 2013 after serving as Co-Chief Investment Officer since October 2009. Mr. Roth also serves as Partner of Pine River Capital Management and is a Director of the Pine River Foundation. Prior to joining Pine River in 2009, Mr. Roth was at Citigroup 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 was based in Chicago and managed the Chicago Financial Institutions Sales Group for Salomon Brothers. He received an M.B.A. with a concentration in Finance from the University of Chicago Graduate School of Business in 1981, and a B.S. in Finance and Economics from Miami University in Oxford, Ohio in 1979. 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.

Director since: 2015

Age: 59

W. Reid Sanders

Background: W. Reid Sanders 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 has also been a director of Silver Bay Realty Trust Corp. (NYSE: SBY) since August 2016, where he serves on the compensation and nominating and corporate governance committees. 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. Mr. Sanders is a trustee of the Hugo Dixon

Director since: 2009

Age: 67

Board Committees:

Audit,

Compensation,

Risk Oversight

Foundation, the Dixon Gallery and Gardens, the Hutchison School, Rhodes College, and the TN Shakespeare Company, and is a former trustee of The

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Jefferson Scholars Foundation and the Campbell Clinic Foundation. He received a Bachelor s Degree 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

Background: Thomas E. Siering is our Chief Executive Officer and President and a member of our Board of Directors. Mr. Siering has been a director and executive officer since we were incorporated in May 2009. Since 2012, Mr. Siering has also served as a director on the board of directors of Silver Bay Realty Trust Corp. (NYSE: SBY), which is a real estate investment trust focused on single-family properties for rental income. 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. 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.

Director since: 2009

Age: 57

Brian C. Taylor

Background: Brian C. Taylor is the Chairman of our Board of Directors. Mr. Taylor has been a director of our company since we were incorporated 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 currently serves on the board of directors for Northside Achievement Zone. He also previously served as a director and Chairman of Silver Bay Realty Trust Corp. from 2012 to 2014. Mr. Taylor was originally appointed as a director pursuant to contractual rights of Pine River granted in the merger agreement with Capitol. 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.

Director since: 2009

Age: 52

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Hope B. Woodhouse

Director since: 2012

Age: 60

Board Committees:

Audit,

Risk Oversight

Background: Hope B. Woodhouse 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, the Kindergarten Reading Collaborative, Children s Services Advisory Committee and the John s Island Community Service League and 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.

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

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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 practices.

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* 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, Lisa A. Pollina, W. Reid Sanders and Hope B. Woodhouse.

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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 our 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 has 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 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 have 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 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).

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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
Lisa A. Pollina				Chair
W. Reid Sanders	x	x		x
Hope B. Woodhouse	x			x

Audit Committee

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.

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);

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- 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

- 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 and Chief Investment Officer, who also serve as directors, 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.

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

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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 eight meetings during 2016. 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 2016, our Audit Committee held seven meetings; our Compensation Committee held seven meetings; our Nominating and Corporate Governance Committee held three meetings; and our Risk Oversight Committee held three 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 2016. Although we do not have a policy on director attendance at our annual meetings of stockholders,

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directors are encouraged to attend all annual meetings. Each of our then-current directors attended our annual meeting of stockholders held in May 2016.

Director Nomination Process

Our Corporate Governance Guidelines provide the following minimum qualifications for directors in order to be considered 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 consents to being named in our proxy statement and 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

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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 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* 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 2018 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:

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- 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.

Independent Director Compensation for 2016

For the one-year term commencing immediately following the 2016 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 $200,000, which consisted of $90,000 in cash and $110,000 in shares of our common stock;

- the Audit Committee Chair received an additional fee of $15,000, which was paid half in cash and half in shares of our common stock; and

- the lead independent director received an additional fee of $35,000, which was paid half in cash and half in shares of our common stock.

The cash portion of these annual fees 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 Second Restated 2009 Equity Incentive Plan (the Equity Incentive Plan),

which generally occurs 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. The common stock granted to the independent directors under our Equity Incentive Plan as part of the director fees noted above vests immediately on the grant date.

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The following table shows the compensation of our independent directors for services in all capacities provided to us in the year ended December 31, 2016:

Name	Annual Fees Paid in Cash(1)	Stock Awards(2)	All Other Compensation(3)	Total
E. Spencer Abraham	$90,000	$76,995	$33,000	$199,996
James J. Bender	$90,000	$65,993	$44,003	$199,996
Stephen G. Kasnet	$115,000	$134,993	-	$249,993
Lisa A. Pollina	$90,000	$76,995	$33,000	$199,996
W. Reid Sanders	$90,000	$109,996	-	$199,996
Hope B. Woodhouse	$90,000	$109,996	-	$199,996

(1) This column sets forth the cash fees paid during the year ended December 31, 2016.

(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 the stock award.

(3) The column sets for the cash value of shares forfeited for the purposes of satisfying tax liabilities in connection with the granting of stock awards. For tax planning purposes, each director may elect to forfeit up to 40 percent of his or her annual stock award and instead receive a cash payment from the company in an amount equivalent to the number of shares withheld.

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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 2016 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 Acquisition Corp., 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 $72.2 million for year ended December 31, 2016 related to the Management Agreement, of which $46.4 million was for the base management fee and $25.8 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

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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 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. In 2016, we reimbursed Pine River a total of $1.8 million for compensation paid to employees of Pine River serving as our Chief Financial Officer and General Counsel.

Related Person Transaction Policies

Our Audit Committee charter requires 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.

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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 $300,000. For tax planning purposes, our directors are permitted to forfeit up to 40 percent of their annual stock award and instead receive a cash payment from the company in an amount equivalent to the number of shares withheld.

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 23, 2017, we had 481 registered holders and approximately 87,688 beneficial owners of our common stock. The following table sets forth information regarding the beneficial ownership of our common stock as of March 23, 2017 (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	Percent of Class(2)
Directors and Director Nominees:		
E. Spencer Abraham	22,696	*
James J. Bender	39,867	*
Stephen G. Kasnet(3)	125,276	*
Lisa A. Pollina	15,911	*
William Roth(4)	1,359,674	*
W. Reid Sanders	114,117	*
Thomas E. Siering(5)	1,688,515	*
Brian C. Taylor	19,865	*

Hope B. Woodhouse	45,505	*
Officers:		
Brad Farrell(6)	430,390	*
Rebecca B. Sandberg(7)	185,032	*
All directors, director nominees and executive officers as a group (11 individuals)	4,046,848	1.16%

* Represents ownership of less than 1.0% of our outstanding common stock as of March 23, 2017.

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(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 348,910,929 shares of common stock outstanding as of March 23, 2017. 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.

(3) Mr. Kasnet also owns 10,000 shares of our 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (Series A Preferred Stock), which were acquired in connection with our public offering of 5,750,000 shares Series A Preferred Stock in March of 2017 at the public offering price of $25.00 per share. Holders of Series A Preferred Stock generally do not have any voting rights. Mr. Kasnet s beneficial ownership of Series A Preferred Stock did not exceed one percent of the shares of Series A Preferred Stock issued and outstanding as of March 23, 2017.

(4) This figure includes 644,827 shares of unvested restricted common stock held by Mr. Roth.

(5) This figure includes 644,827 shares of unvested restricted common stock held by Mr. Siering.

(6) This figure includes 307,243 shares of unvested restricted common stock held by Mr. Farrell.

(7) This figure includes 123,460 shares of unvested 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
	27,075,417(1)	7.78%

The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355		
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	22,062,816(2)	6.3%
Thornburg Investment Management Inc. 2300 North Ridgetop Road Santa Fe, NM 87506	21,670,020(3)	6.23%

(1) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2017, by The Vanguard Group. Vanguard reported that it has sole voting power with respect to 204,169 shares, shared voting power with respect to 30,290 shares, sole dispositive power with respect to 26,859,184 shares, and shared dispositive power with respect to 216,233 shares.

(2) This information is based on a Schedule 13G/A filed with the SEC on January 27, 2017, by BlackRock, Inc. BlackRock reported sole voting power with respect to 20,658,459 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 8, 2017, by Thornburg Investment Management Inc. Thornburg reported that it has sole voting power and sole dispositive power with respect to all shares reported in the table.

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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, 2016, all reports required to be filed pursuant to Section 16(a) by such executive officers, directors and 10% holders were timely filed.

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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.

Thomas E. Siering	
Age: 57	**Background:** Thomas E. Siering is our President and Chief Executive Officer. Biographical information for Mr. Siering is provided above under *Proposal 1: Election of Directors Director Nominees.*

William Roth	
Age: 59	**Background:** William Roth is our Chief Investment Officer. Biographical information for Mr. Roth is provided above under *Proposal 1: Election of Directors Director Nominees.*

Brad Farrell	
Age: 42	**Background:** Brad Farrell 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 Sandberg	
Age: 45	**Background:** Rebecca B. Sandberg 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

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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.

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, 2016.

Executive Compensation Overview; Management Agreement

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. As an externally managed company with no employees of our own, we rely on our external manager to provide us with the employees we need to operate our business.

Under the Management Agreement, PRCM Advisers is responsible for managing our assets and the day-to-day operations of our company, including, among other things:

- investigating, analyzing and selecting possible investment opportunities;
- conducting negotiations related to asset acquisitions;

- negotiating and entering into financing agreements;

- managing and supervising third party vendors and contractors, including lawyers and auditors;

- providing executive and administrative personnel, office space and office services;

- maintaining a financial accounting and reporting function, the activities of which include monitoring compliance with REIT and 1940 Act tests;

- providing a legal and regulatory compliance function;

- providing investor relations services; and

- providing and maintaining computer and technology resources.

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Additionally, PRCM Advisers is responsible for providing 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 (the parent company of PRCM Advisers) and provided to PRCM Advisers by Pine River under the terms of a Shared Services Agreement between PRCM Advisers and Pine River. PRCM Advisers recognizes that providing a talented and motivated workforce is critical to the success of our business and is committed to compensation practices designed to effectively attract, retain and motivate key personnel. Our Compensation Committee, which consists entirely of independent directors, consults with PRCM Advisers concerning the compensation philosophy of PRCM Advisers and its affiliates to the extent such philosophy affects the incentives, risk-taking and performance of the named executive officers and other personnel supporting our business. This helps ensure that the compensation practices of PRCM Advisers promote the long-term best interests of our business and our stockholders.

As compensation for the services provided under the Management Agreement, we pay PRCM Advisers a base management fee and reimburse it for certain expenses incurred in the course of rendering such services. The management fee is a fixed fee that we pay to PRCM Advisers on a quarterly basis; we do not pay PRCM Advisers any incentive or variable fees. We disclose the amount of the base management fee and expense reimbursements to stockholders in our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K that we file with the SEC. As previously disclosed in our filings with the SEC and elsewhere, our payments to PRCM Advisers included management fees of $46.4, $50.3 and $48.8 million and expense reimbursements of $25.8, $22.9 and $15.5 million for the years ended December 31, 2016, 2015 and 2014, respectively. Given PRCM Advisers critical role with respect to our business, our Corporate Governance Guidelines require the Board of Directors to oversee our relationship with PRCM Advisers and all compensation paid to PRCM Advisers is reviewed by the Compensation Committee on at least an annual basis. The base management fee cannot be increased or revised without the approval of our independent directors. 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.

Compensation Program and 2016 Say-on-Pay Vote Result

As an externally managed company with no employees, we utilize a hybrid approach to the compensation program for our named executive officers. PRCM Advisers, through its parent company Pine River, is responsible under the Management Agreement for all cash compensation paid to our named executive officers. Equity incentive compensation that is awarded to our named executive officers from time to time is the responsibility of our company and is determined by our Compensation Committee in accordance with our Equity Incentive Plan. As described in more detail in the following sections, we believe that the terms of the Management Agreement and the utilization our Equity Incentive Plan effectively align the interests of Pine River and PRCM Advisers with those of our business, our named executive officers and, most importantly, our stockholders.

At our 2016 annual meeting, approximately 52% of votes cast by our stockholders supported our say-on-pay proposal on executive compensation. This level of stockholder support was significantly lower than prior years, including 94%, 97% and 98% support in 2015, 2014 and 2013, respectively. We recognize that our stockholders ability to provide input with respect to our executive compensation practices and disclosure is an important element of good corporate governance, and we carefully consider the results of these votes in assessing the compensation of our named executive officers. Stockholder outreach and feedback is a critical component of our investor relations philosophy, and, in 2016, we continued to

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maintain a regular dialogue with our stockholders. During the year, we engaged in meetings or conversations with over 75% of our top 25 institutional stockholders on numerous topics, including executive compensation.

In connection with our stockholder engagement efforts, stockholders generally did not cite any specific reason for opposition to our executive compensation practices other than reliance upon the adverse recommendation on such proposal issued by proxy voting service Institutional Shareholder Services (ISS). This adverse recommendation was the result of a new ISS policy for the 2016 proxy season, under which ISS indicated it would generally recommend a vote against an externally-managed issuer s say-on-pay proposal when ISS determines the compensation disclosures of the issuer are insufficient for shareholders to reasonably assess the compensation programs and practices of such issuer. In subsequent guidance issued by ISS, it identified specific information that it believed would be necessary in order for an externally-managed issuer s compensation disclosures to be deemed sufficient. In response to stockholder feedback, we have included in this proxy statement certain additional information about the compensation of our executive officers that is consistent with this ISS guidance, including:

- the aggregate cash compensation paid by Pine River to our named executive officers that is reasonably associated with their management of our company, as well as a calculation of the percentage of such aggregate cash compensation relative to the aggregate amount of management fees and reimbursements we paid to PRCM Advisers during 2016;

- the allocation of such aggregate cash compensation amount between fixed and variable cash compensation; and

- factors considered by Pine River in determining our named executive officers variable cash compensation.

Importantly, we have previously provided and will continue to provide the compensation-related information and data that is required of us, as an externally-managed issuer, per SEC rules and regulations. Such required disclosure focuses primarily on the equity compensation that we pay to our named executive officers, which is set forth in the *Equity Incentive Compensation* section of this proxy statement and identifies the factors considered by the Compensation Committee in determining such pay. We also plan to continue to engage our stockholders and consider their input with respect to all facets of our business, including executive compensation.

Cash Compensation

We do not pay any cash compensation to our named executive officers or to any other employees of Pine River who support our business. Pine River is responsible for all such cash compensation and for making decisions relating thereto based on such factors as Pine River determines appropriate. However, Pine River takes into consideration the interests of the company in ensuring that Pine River s compensation philosophy is consistent with our objectives and consults with our Compensation Committee concerning the cash compensation that Pine River proposes to pay to its employees who serve our Chief Financial Officer and

General Counsel. The cash compensation paid by Pine River to our Chief Financial Officer and General Counsel includes salaries and performance-based bonuses for services provided to our company. We reimburse Pine River for such amounts. Cash compensation paid by Pine River to the individuals serving as our Chief Executive Officer and Chief Investment Officer, each of whom are equity partners of Pine River, includes salaries, profit sharing and partnership distributions that are derived in part from the management fee we pay to PRCM Advisers and in part from various other revenue streams generated by Pine River in its ordinary course of operations as a global asset manager.

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Our Management Agreement with PRCM Advisers does not require that any specified amount or percentage of the management fees we pay to PRCM Advisers be allocated to our named executive officers. However, we estimate that the aggregate compensation of our named executive officers that may reasonably be associated with their management of our company (exclusive of any salary, partnership distribution, profit sharing or other arrangements payable to our Chief Executive Officer and Chief Investment Officer that is attributable to their roles as partners of Pine River) totaled $15.2 million for 2016. This aggregate amount represents approximately 21% of the $72.2 million in total management fees and reimbursements paid by us to PRCM Advisers for 2016.

Of the aggregate cash compensation paid by Pine River to our named executive officers in 2016 that was reasonably associated with their management of our company, we estimate that approximately 19% represented fixed compensation (e.g., salaries) and 81% represented variable compensation (e.g., performance-based bonuses, profit sharing and partnership distributions). Pine River does not use a specific formula to calculate the variable pay portion of our named executive officers compensation. Generally, in determining each executive s variable pay, Pine River will take into account factors such as the individual s position, his or her contribution to our business, the performance of the company, market practices, and, with respect to the Chief Financial Officer and General Counsel, the recommendations of our Compensation Committee, and applies its discretion in considering and weighing such factors.

Equity Incentive Compensation

Our Compensation Committee, which consists solely of independent directors, is responsible for overseeing the equity incentive component of our compensation program, and 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:

- *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 common stock ownership by enabling them to participate in any future appreciation of our common 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

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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), the Sarbanes-Oxley Act of 2002, 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.

In 2016, our Compensation Committee and Board of Directors approved the grant of an aggregate amount of 886,765 shares of restricted common stock (the 2016 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 2016 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, 2015. 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, 2015, including that the company:

- finished in the 61st percentile for total stockholder return in 2015, and the 77th percentile for total stockholder returns from 2013 through 2015, among companies comprising the Pine River Mortgage REIT Index, while maintaining a lower overall risk profile with respect to leverage and interest rate exposure;

- produced a full year return on book value of 0.5% with dividends of $1.04 per share, notwithstanding the impacts of concerns related to a potential rising interest rate environment;

- continued the evolution of its mortgage loan conduit and mortgage servicing rights platforms, including the completion of seven securitization transactions and the addition of six MSR flow-sale relationships;

- Substantially developed its commercial real estate effort, including adding senior and mezzanine commercial real estate assets with an aggregate carrying value of $661.0 million at December 31, 2015; and

- continued to expand and diversify its financing counterparties, including increasing borrowing capacity with the Federal Home Loan Bank Des Moines and establishing a repurchase facility for commercial real estate assets.

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

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actual job performance, the individual s ability to influence the outcome of our company s future performance, the value of the award in retaining and motivating key personnel, comparable compensation data for similarly situated peers and economic and market conditions generally. 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 2015.

We have not in the past made equity awards on a fixed schedule to our named executive officers, and our Compensation Committee s decision on 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

In 2016, our Compensation Committee engaged Pay Governance LLC, or Pay Governance, as its independent compensation consultant. Our Compensation Committee considers advice and recommendations received from its compensation consultant regarding compensation matters, including decisions made with respect to director compensation and executive equity compensation. Pay Governance does not provide services to our company other than the advice provided to our Compensation Committee, and Pay Governance had advised our Compensation Committee that the fees and direct expenses received from us during 2016 were immaterial as a percentage of their respective incomes for the period. Pay Governance has also advised us that neither they nor, to their knowledge, any member of their consulting team who served or are serving our Compensation Committee owns any shares of our common stock. After considering the foregoing, as well as Pay Governance s conflict of interest policies and procedures and the lack of known business and personal relationships between Pay Governance, its team members servicing our Compensation Committee and its members, and our named executive officers, our Compensation Committee concluded that Pay Governance 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, who 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

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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 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.

Our Equity Incentive Plan provides that, with respect to awards intended to qualify for relief from the limitations of Section 162(m) of the Code, 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. As indicated above, management does not believe that Section 162(m) is applicable to us and, therefore, does not currently consider and has not previously considered such restrictions in connection with the granting of prior awards. As such, certain individual restricted stock awards previously disclosed in our proxy statements and other filings with the SEC have exceeded 600,000 shares over a three-year period, as permitted under the Equity Incentive Plan.

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 paid to our named executive officers are made by Pine River. The cash compensation paid by Pine River to our Chief Financial Officer and General Counsel includes salaries and performance-based bonuses for services provided to our company. We reimburse Pine River for such amounts. Cash compensation paid by Pine River to the individuals serving as our Chief Executive Officer and Chief Investment Officer, each of whom are equity partners of Pine River, includes salaries, profit sharing and partnership distributions that are derived in part from the management fee we pay to PRCM Advisers and in part from various other revenue streams generated by Pine River in its ordinary course of operations as a global asset manager.

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 and other costs, but most 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

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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 2016, 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-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 years ending December 31, 2016, 2015 and 2014:

Name and Principal Position	Year	Restricted Stock Awards(1)	All Other Compensation(2)	Total(3)
Thomas E. Siering,	2016	$2,399,996	$555,399	$2,955,394
President and Chief Executive Officer	2015	$2,399,998	$456,802	$2,856,800
	2014	$2,574,995	$360,471	$2,935,466
William Roth,	2016	$2,399,996	$555,399	$2,955,394
Chief Investment Officer	2015	$2,399,998	$456,802	$2,856,800
	2014	$2,574,995	$360,471	$2,935,466
Brad Farrell,	2016	$1,250,000	$263,406	$1,513,406

Chief Financial Officer and Treasurer	2015	$1,249,985	$176,359	$1,426,344
	2014	$937,500	$121,287	$1,058,787
Rebecca B. Sandberg,	2016	$449,996	$94,762	$544,758
General Counsel and Secretary	2015	$399,993	$70,930	$470,923
	2014	$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 represent the grant date fair value of the restricted stock awards, which grant dates were January 27, 2016, May 14, 2015 and February 5, 2014.

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(2) All Other Compensation paid during 2016 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. See *Cash Compensation* above for information regarding cash compensation paid by Pine River.

Grants of Plan-Based Awards

We adopted our Equity Incentive Plan, which was most recently approved by our stockholders on May 14, 2015, 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 13,000,000 shares of our common stock pursuant to our Equity Incentive Plan. As of December 31, 2016, 7,526,278 shares of our common stock remained available for future issuance pursuant to our Equity Incentive Plan.

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, 2016:

Name	Grant Date	All Other Stock Awards: Number of Shares(1)	Grant Date Fair Value of Stock Awards(2)
Thomas E. Siering	1/27/2016	327,421	$2,399,996
William Roth	1/27/2016	327,421	$2,399,996
Brad Farrell	1/27/2016	170,532	$1,250,000
Rebecca B. Sandberg	1/27/2016	61,391	$449,996

(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 $7.33 closing market price of our common stock on the NYSE on the grant date, which was January 27, 2016.

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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, 2016.

		Stock Awards	
Name	**Grant Date**	**Number of Shares or Units of Stock Not Yet Vested(1)**	**Market Value of Shares or Units of Stock Not Yet Vested(2)**
Thomas E. Siering	1/27/2016	327,421	$2,855,111
	5/14/2015	151,947	$1,324,978
	2/5/2014	87,675	$764,526
William Roth	1/27/2016	327,421	$2,855,111
	5/14/2015	151,947	$1,324,978
	2/5/2014	87,675	$764,526
Brad Farrell	1/27/2016	170,532	$1,487,039
	5/14/2015	79,139	$690,092
	2/5/2014	31,921	$278,351
Rebecca B. Sandberg	1/27/2016	61,391	$535,330
	5/14/2015	25,324	$220,825
	2/5/2014	12,768	$111,337

(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 $8.72 closing market price of our common stock on the NYSE on December 31, 2016.

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Stock Vested in 2016

The following table sets forth information concerning the shares of restricted stock held by our named executive officers that vested during the year ended December 31, 2016.

		Stock Awards	
Name	**Vesting Date**	**Number of Shares Acquired on Vesting**	**Value Realized on Vesting(1)**
Thomas E. Siering	5/29/2016	85,337	$726,218
	5/14/2016	75,973	$641,212
	2/5/2016	87,674	$659,308
William Roth	5/29/2016	85,337	$726,218
	5/14/2016	75,973	$641,212
	2/5/2016	87,674	$659,308
Brad Farrell	5/29/2016	25,601	$217,865
	5/14/2016	39,568	$333,954
	2/5/2016	31,920	$240,038
Rebecca B. Sandberg	5/29/2016	13,654	$116,196
	5/14/2016	12,662	$106,867
	2/5/2016	12,768	$96,015

(1) The values in this column are based on the $8.51, $8.44 and $7.52 closing market price of our common stock on the NYSE on May 29, 2016, May 14, 2016 and February 5, 2016.

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, 2016 and assuming our 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	$4,944,615
William Roth	$4,944,615
Brad Farrell	$2,455,482
Rebecca B. Sandberg	$867,492

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(1) Comprised of all outstanding shares of restricted stock held by such named executive officer that had not vested as of December 31, 2016. The values in this column are based on the $8.72 closing market price of our common stock on the NYSE on December 31, 2016.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors 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 recommended that the *Compensation Discussion and Analysis* be included in the company s proxy statement for the 2017 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.

At the 2016 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 approved the proposal, with approximately 52% of the votes cast voting in favor of the proposal.

Similar to last year, at the 2017 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 2017 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.

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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. We currently expect to conduct our next advisory vote on executive compensation at our next annual meeting of stockholders in May 2018, though we will take into consideration the outcome of the advisory vote under Proposal 3 of this proxy statement.

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

PROPOSAL 3: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES RELATING TO EXECUTIVE COMPENSATION

In accordance with SEC rules, we are providing our stockholders with an opportunity to cast an advisory vote on the frequency of future advisory votes on executive compensation, such as that provided for in Proposal 2 of this proxy statement. This non-binding advisory vote is commonly referred to as a say on frequency vote. Under this proposal, stockholders may vote to have the company hold an advisory vote on executive compensation: (i) every year; (ii) every two years; or (iii) every three years. The option that receives the highest number of votes cast will reflect the frequency for future say-on-pay votes that has been selected by our stockholders.

This vote on the frequency of future advisory votes relating to executive compensation is advisory in nature and is not binding on us, our Board of Directors, our Compensation Committee, PRCM Advisers or Pine River. However, our Board and the Compensation Committee value the opinions expressed by our stockholders in their vote on this proposal, and expect to take into account the outcome of this vote when considering the frequency of future advisory votes on our executive compensation.

While we will continue to monitor developments in this area, our Board believes that a say-on-pay vote should be conducted every year so that our stockholders may express their views on our executive compensation program and our Compensation Committee can consider the outcome of these votes in making its decisions on executive compensation.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR A FREQUENCY OF EVERY YEAR WITH RESPECT TO THE SAY-ON-PAY VOTE.

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, 2017. 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.

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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*. 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 2016.

The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board, or PCAOB.

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, 2016, be included in our Annual Report on Form 10-K for the year ended December 31, 2016, 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, 2017.

By the Audit Committee:

Stephen G. Kasnet, Chairman
W. Reid Sanders
Hope B. Woodhouse

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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, 2016. We also retained Ernst & Young LLP, as well as other accounting and consulting firms, to provide various other services in 2016.

The table below presents the aggregate fees billed to us for professional services performed by Ernst & Young LLP for the years ended December 31, 2016 and 2015:

	Year Ended December 31,	
	2016	2015
Audit fees(1)	$ 1,269,500	$ 1,177,210
Audit-related fees(2)	302,825	518,400
Tax fees(3)	147,828	218,350
Total principal accountant fees	$ 1,720,153	$ 1,913,960

(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 EY 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 2016 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.

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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 to the extent permitted by law.

Stockholder Proposals and Director Nominations for 2018 Annual Meeting

Our 2018 annual meeting is expected to be held on or about May 17, 2018. If a stockholder intends to submit a proposal for inclusion in our proxy statement for our 2018 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 30, 2017. 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 2018 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 2018 annual Meeting of Stockholders must notify us in writing of such proposal by November 30, 2017, but in no event earlier than October 31, 2017.

Annual Report

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, 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*, or on our website at *www.twoharborsinvestment.com*. Our 2016 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.