

Capitol Acquisition Corp
Form 425
July 09, 2009

Two Harbors
Investment Corp.
Investor Presentation
Capitol Acquisition
Corp.

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July 2009

Filed by Two Harbors Investment Corp. pursuant to
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Subject Company: Capitol Acquisition Corp.

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Two Harbors

Investment Corp

Safe Harbor Statement

THIS PRESENTATION IS BEING PRESENTED BY CAPITOL ACQUISITION CORP. (CAPITOL OR CLA), PINE HARBORS INVESTMENT CORP. (TWO HARBORS).

NEITHER CAPITOL, TWO HARBORS NOR ANY OF ITS RESPECTIVE AFFILIATES MAKES ANY REPRESENTATION AS TO THE COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PRESENTATION. THE SOLE PURPOSE OF THIS PRESENTATION IS TO PROVIDE INFORMATION TO YOU TO ASSIST YOU IN MAKING A DECISION ON WHETHER THEY WISH TO PROCEED WITH A FURTHER REVIEW OF THE PROPOSED TRANSACTION DISCUSSED HEREIN OR TO CONTAIN ALL THE INFORMATION THAT A PERSON MAY DESIRE IN CONSIDERING THE PROPOSED TRANSACTION TO FORM THE BASIS OF ANY INVESTMENT DECISION OR ANY OTHER DECISION IN RESPECT OF THE PROPOSED TRANSACTION. CAPITOL HAS FILED A PROXY STATEMENT WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) AND TWO HARBORS HAS FILED A STATEMENT WITH THE SEC, IN EACH CASE THAT CONTAINS A PRELIMINARY PROXY STATEMENT/PROSPECTUS FOR THE PROPOSED TRANSACTION. STOCKHOLDERS AND WARRANT HOLDERS OF CAPITOL AND OTHER INTERESTED PERSONS SHOULD REFER TO THE PROXY STATEMENT/PROSPECTUS IN CONNECTION WITH CAPITOL 'S SOLICITATION OF PROXIES FOR THE SPECIAL

INFORMATION, INCLUDING A DESCRIPTION OF THE SECURITY HOLDINGS OF THE CAPITOL OFFICERS AND SUCCESSFUL CONSUMMATION OF THE PROPOSED TRANSACTION. THE DEFINITIVE PROXY STATEMENT/PROXY STATEMENT AND WARRANT HOLDERS, AS THE CASE MAY BE, AS OF A RECORD DATE TO BE ESTABLISHED FOR VOTING. WARRANT HOLDERS WILL ALSO BE ABLE TO OBTAIN A COPY OF THE DEFINITIVE PROXY STATEMENT/PROXY STATEMENT TO: CAPITOL ACQUISITION CORP., 509 7TH STREET, N.W., WASHINGTON, D.C. 20004. FREE COPIES OF THESE STATEMENTS WITHOUT CHARGE, AT THE SEC'S INTERNET SITE ([HTTP://WWW.SEC.GOV](http://www.sec.gov)).

CAPITOL, TWO HARBORS, TWO HARBORS' EXTERNAL MANAGER AND THEIR RESPECTIVE DIRECTORS, EXECUTIVES AND OFFICERS WILL BE DEEMED TO BE PARTICIPANTS IN THE SOLICITATION OF PROXIES FOR THE SPECIAL MEETINGS OF CAPITOL TO BE HELD TO APPROVE THE PROPOSED TRANSACTION. AS PART OF THE PROPOSED TRANSACTION, AN AGREEMENT FOR CERTAIN SERVICES TO TWO HARBORS' EXTERNAL MANAGER PURSUANT TO WHICH SUCH ENTITY WILL BE RECEIVING A CERTAIN PERCENTAGE OF THE MANAGEMENT FEES TO BE PAID BY TWO HARBORS. ADDITIONALLY, THE UNDERWRITERS OF THE 2007 MAY ASSIST CAPITOL IN THESE SOLICITATION EFFORTS. THE UNDERWRITERS ARE ENTITLED TO RECEIVE AND TO EXERCISE THE RIGHT TO PARTICIPATE IN FUTURE SECURITIES OFFERINGS BY TWO HARBORS UPON COMPLETION OF THE OFFERING. INFORMATION REGARDING THE INTERESTS OF POTENTIAL PARTICIPANTS IS INCLUDED IN THE PROXY STATEMENT. CAPITOL AND TWO HARBORS WITH THE SEC.

THIS PRESENTATION SHALL NOT CONSTITUTE A SOLICITATION OF A PROXY, CONSENT OR AUTHORIZATION TO ENTER INTO THE PROPOSED TRANSACTION.

THIS PRESENTATION SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO SELL SECURITIES IN ANY JURISDICTIONS IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL UNDER THE SECURITIES LAWS OF ANY SUCH JURISDICTION. NO OFFERING OF SECURITIES SHALL BE MADE EXCEPT IN ACCORDANCE WITH THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED.

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Two Harbors

Investment Corp

Forward Looking Statements

THIS PRESENTATION CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE SAFE HARBOR PROVISIONS OF THE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS INVOLVE NUMEROUS RISKS AND UNCERTAINTIES THAT MAY CAUSE ACTUAL RESULTS TO DIFFER FROM ITS EXPECTATIONS, ESTIMATES, AND PROJECTIONS AND, CONSEQUENTLY, YOU SHOULD NOT RELY ON THESE STATEMENTS AS PREDICTIONS OF FUTURE EVENTS. FORWARD-LOOKING STATEMENTS ARE NOT HISTORICAL IN NATURE AND ARE INTENDED TO ANTICIPATE, ESTIMATE, WILL, SHOULD, EXPECT, BELIEVE, INTEND, SEEK, PLAN, AND OTHERWISE EXPRESS FORWARD-LOOKING REFERENCES TO STRATEGY, PLANS, OR INTENTIONS.

STATEMENTS REGARDING THE FOLLOWING SUBJECTS, AMONG OTHERS, ARE FORWARD-LOOKING BY THEIR NATURE: (I) REGARDING THE PROPOSED TERMS AND STRUCTURE OF THE PROPOSED TRANSACTION, THE TERMS OF TWO HARBORS' SEPARATE TRANSACTION AND THE PROPOSED TERMS AND STRUCTURE OF TWO HARBORS' MANAGEMENT AND OPERATIONS; (II) REGARDING THE ESTIMATED BOOK VALUE OF TWO HARBORS UPON CLOSING OF THE PROPOSED TRANSACTION; AND (III) REGARDING PROPOSED INVESTMENT STRATEGIES AND INVESTMENT GOALS, TARGETED INVESTMENTS AND THE OPPORTUNITIES AVAILABLE TO TWO HARBORS.

EXPECTED MARKET TRENDS, INCLUDING THE ROLE PRIVATE CAPITAL IS EXPECTED TO PLAY IN FINANCING; (V) REGARDING THE INCREASED SUPPORT AND INVOLVEMENT OF THE U.S. GOVERNMENT MAY OFFER POTENTIAL FOR ATTRACTIVE RETURNS; (VI) REGARDING IMPROVING INVESTMENT RETURNS, THAT AGENCY RMBS ARE LIKELY TO REMAIN AT LOW PRICES TO LIBOR; (VII) REGARDING THE SPEEDS OF CERTAIN ASSETS (INCLUDING THAT SOME PREPAYMENTS ARE LIKELY TO REMAIN SLOWER THAN LIBOR); (VIII) REGARDING THE ARE PRICED AT LEVELS THAT COMPENSATE FOR CREDIT RISK AND HAVE UPSIDE TO POTENTIAL GOVERNMENT PROGRAMS; (IX) REGARDING FINANCING, AND CERTAIN AGENCY RMBS SPREADS ARE EXPECTED TO REMAIN WIDE; (VI) REGARDING TWO HARBORS' ATTRACTIVE ROE; (VII) REGARDING TWO HARBORS' ABILITY TO QUICKLY DEPLOY ITS CAPITAL AND THE ABILITY OF TWO HARBORS TO INVEST ITS CAPITAL; (VIII) REGARDING TWO HARBORS' FINANCING STRATEGY AND USE OF DEBT; (IX) REGARDING LEVERAGE RATIO AND POTENTIAL USE OF GOVERNMENT PROGRAMS; (IX) REGARDING THE EXPECTED TIMING OF THE ISSUANCE OF THE WARRANTS AS A POTENTIAL SOURCE OF CAPITAL GROWTH, INCLUDING THE BOOK VALUE OF TWO HARBORS' COMMON STOCK HELD BY TWO HARBORS UPON EXERCISE OF THE WARRANTS.

THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES. TWO HARBORS' FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE, MAY AFFECT ACTUAL RESULTS INCLUDE: UNCERTAINTIES AS TO THE TIMING OF THE PROPOSED TRANSACTION; THE REACTION OF CAC'S STOCKHOLDERS AND WARRANT HOLDERS; THE SATISFACTION OF CLOSING CONDITIONS TO THE PROPOSED TRANSACTION; CHANGES IN ECONOMIC CONDITIONS GENERALLY, CHANGES IN TWO HARBORS' FINANCE AND THE REAL ESTATE MARKETS SPECIFICALLY; LEGISLATIVE AND REGULATORY CHANGES; A CHANGE IN TWO HARBORS ON FAVORABLE TERMS, OR AT ALL; AVAILABILITY OF SUITABLE INVESTMENT OPPORTUNITIES AND STRATEGIES; EXPECTATIONS REGARDING THE TIMING OF GENERATING REVENUES; THE DEGREE AND NATURE OF TWO HARBORS' DEPENDENCE ON ITS MANAGER AND INABILITY TO FIND A SUITABLE REPLACEMENT IN A TIMELY MANNER IF THE MANAGER WERE TO TERMINATE THE MANAGEMENT AGREEMENT; CHANGES IN THE RELATIONSHIPS AMONG TWO HARBORS' STRATEGIES OF, AND CONFLICTS OF INTEREST AMONG, TWO HARBORS AND PINE RIVER, INCLUDING THE ABILITY OF TWO HARBORS TO CONDUCT BUSINESS BY ITS EXEMPTIONS UNDER THE 1940 ACT; CHANGES IN INTEREST RATES AND INTEREST RATE SENSITIVITY; LIQUIDITY OF BORROWERS; INFLATION; CHANGES IN GAAP; CHANGES IN PERSONNEL AND LACK OF AVAILABLE FINANCING; POLICIES AND RULES APPLICABLE TO REITS; AND OTHER FACTORS NOT PRESENTLY IDENTIFIED.

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Two Harbors
Investment Corp
Proven Manager
with Strong Track
Record

Capitol Acquisition (NYSE Amex: CLA) to merge with a subsidiary of Two Harbors Investment Corp., a newly created mortgage REIT to capitalize on severe dislocation in the residential mortgage backed securities (RMBS) market.

At current CLA price, an investor creates a share in Two Harbors at 1.02x initial Book Value vs. 1.26x trading average for non-Agency public peers.

(1)

Externally managed by PRCM Advisers, an affiliate of Pine River,
a global
fixed-income focused asset manager.

Since February 2008 inception, Pine River's RMBS strategy has returned
111.7% life to date net of fees and 69.8% annualized net of fees

(2)

with no

negative months.

Team and infrastructure in place to rapidly invest proceeds and manage
future growth.

Attractive 1.5% management fee structure with no additional performance
fees.

Opportunity

Transaction Highlights

(1)

Assumes

no

shareholder

conversions.

The

impact

of

this

benefit

is

reduced

in

the

case

of

maximum

shareholder

conversions.

Please

see

slide

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entitled

Comparables:

Non-Agency

and

Agency

REITS

for

more

information.

(2)

For more information with respect to the performance of Pine River's RMBS strategy including key assumptions used in deriv

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With no legacy assets, Two Harbors is positioned to invest 100% of Capitol's trust fund proceeds into RMBS with potential for attractive risk adjusted returns and Return on Equity (ROE).

Cross-product approach targeting all sub-sets of the RMBS market enables Two Harbors to best capture inefficiencies.

Expected government financing programs such as TALF II

(1)

(if expanded to RMBS) could increase return on equity.

Compelling

Targeted Returns

Transaction Highlights

(1)

Term Asset-Backed Securities Loan Facility (TALF).

(2)

As of July 6, 2009 closing price.

Capitol's public shareholders to own 100% of Two Harbors post completion.

Expected market capitalization of \$254 million based on 26.25 million common shares and current stock price of \$9.69

(2)

(reduced by the

amounts converted by stockholders exercising their conversion rights and the amounts that may be used to enter into forward or other contracts to purchase shares of Capitol).

Warrants struck at \$11.00 provide accretive growth capital.

Pro Forma

Ownership

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Two Harbors
Investment Corp
Experienced, Cohesive Team:
Six partners together for average of 14 years.
Average 18 years hedge fund
experience.
55 employees, 19 investment professionals.
No senior management turnover.
Historically low attrition.
Overview of Pine River Capital Management
Founded June 2002 with offices in New York, London, Hong Kong, San Francisco and Minnesota.
Over \$900 million assets under management
(1)

Experienced manager of non-Agency, Agency and other mortgage related assets.

Pine River has never suspended or withheld cash from investors.

Established Infrastructure:

Strong corporate governance.

Registrations: SEC/NFA (U.S.), FSA (U.K.),

SFC (Hong Kong), SEBI (India) and TSEC

(Taiwan).

Proprietary technology.

Global footprint.

Minnetonka, MN

London

Hong Kong

San Francisco

New York

Global multi-strategy asset management firm providing comprehensive portfolio

management,

transparency

and

liquidity

to

institutional

and

high

net

worth

investors.

(1)

Estimate as of July 1, 2009.

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Two Harbors

Investment Corp

The Two Harbors Team

Board consists of seven directors, majority independent, including:

Chairman, Brian Taylor, CEO and Founder, Pine River;

Vice-Chairman, Mark Ein, CEO, Capitol;

Director, Tom Siering, Partner, Pine River; and

Four

independent directors.

Tom Siering, CEO.

Jeff Stolt, CFO.

Steve Kuhn, Co-Chief Investment Officer.

Bill Roth, Co-Chief Investment Officer.

Tim O'Brien, General Counsel.

Andrew Garcia, VP Business Development.
Management Team
Board of Directors

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Pine River's RMBS Strategy Historical Returns

Beginning in September 2008, the data reflects, on an unaudited basis, the actual performance of Nisswa Fixed Income Master Fund Ltd. For the period from February 2008 to August 2008, Pine River's fixed income strategy was conducted through Nisswa Master Fund Ltd. and non-investment grade global convertible arbitrage, capital structure arbitrage, SPAC warrant arbitrage and fixed income arbitrage. August 2008 is derived from the strategy attribution contained in the monthly investor reports of Nisswa Master Fund Ltd. The performance information shown above reflects the payment of full incentive fees to the manager, even if such fees were not paid. The performance information shown above is based on the assumptions with respect to the allocation of leverage, stock loan fees and interest income and expenses. For example, Pine River's RMBS strategy is based on various strategies based on margin requirements across the positions in each strategy. The performance information shown in the table is for Nisswa Fixed Income Master Fund Ltd.

The investment strategy of each of Nisswa Fixed Income Master Fund Ltd. and the RMBS strategy component of Nisswa Master Fund Ltd. intends to employ in several important respects. Nisswa Fixed Income Master Fund Ltd. (and before September 2008 the RMBS strategy component) invests in rate, adjustable and interest only securities, Collateralized Mortgage Obligations, trades in mortgage backed securities to be de

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equity investments in REITs, and actively hedged its trading positions. By contrast, Two Harbors initially seeks to invest in A emphasis. In addition, whereas Nisswa Master Fund Ltd. and Nisswa Fixed Income Master Fund Ltd. charge a 1.5% management fee. Two Harbors investment strategy may differ from that of Nisswa Fixed Income Master Fund Ltd. additional RMBS. Further, unlike Two Harbors, Nisswa Fixed Income Master Fund Ltd. is not constrained by limitations on its investment from registration under the Investment Company Act of 1940. Accordingly, past performance is not indicative of future results those experienced by investors in Nisswa Fixed Income Master Fund Ltd. or the RMBS strategy component of the Nisswa Master Fund Ltd. Return on capital is calculated based on average monthly capital, not beginning of month capital. Assumes a 1.5% management fee.

Jan-08

Feb-08

Mar-08

Apr-08

May-08

Jun-08

Jul-08

Aug-08

Sep-08

Oct-08

Nov-08

Dec-08

Net Monthly Return

N/A

2.93%

1.26%

2.83%

4.10%

4.09%

2.49%

2.11%

9.56%

2.46%

3.26%

4.32%

Net Annual Return

N/A

2.93%

4.23%

7.18%

11.57%

16.13%

19.02%

21.52%

33.15%

36.42%

40.87%

46.95%

Jan-09

Feb-09

Mar-09

Apr-09

May-09

Jun-09
(Estimate)
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Net Monthly Return
8.50%
5.01%
4.48%
5.09%
6.40%
8.24%
Net Annual Return
8.50%
13.94%
19.04%
25.10%
33.12%
44.07%
Annualized Net Life to Date Return
3 Month Net Return
Annualized Standard Deviation
6 Month Net Return
Positive Months
12 Month Net Return
Nisswa Fixed Income Master Fund Ltd. Estimated
July 1, 2009 Assets Under Management
69.79%
8.28%
17/17
\$263.2 Million
21.03%
44.07%
82.29%
LTD Net Return
111.70%

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Two Harbors Investment Approach

Holistic approach across non-Agency and Agency RMBS.

Continuous top-down market assessment to identify most attractive segments.

Detailed analyses to find the most mispriced securities.

Find and invest in smaller opportunities often ignored by larger funds.

Strong focus on risk management to preserve value and maximize returns.

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Market Opportunity

Traditional providers of capital have left the market.

Fannie Mae & Freddie Mac, historically the overseers of relative value and

effectively the world's two largest mortgage hedge funds, cannot participate in the current price discrepancies.

The capital bases of traditional market participants such as proprietary trading desks and hedge funds have been reduced.

Continued forced selling by remaining participants has led to significant price declines.

Two Harbors will be positioned to capitalize upon severe dislocations in the \$11.0 trillion

U.S. mortgage market.

(1)

(1)

FBR Miller.

11
Two Harbors
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0%
1%
2%
3%
4%
5%
6%
7%
Jan-04
Oct-04
Jul-05
Apr-06

Jan-07

Oct-07

Jul-08

Apr-09

FN30CC

1moLIB

Agency securities are trading at wide spreads to LIBOR and are likely to remain wide for some time.

Source:

UBS Mortgage Strategy.

Non-Agency securities are trading at low prices.

Significant opportunities in both non-Agency and Agency securities.

Source:

Amherst Securities.

Note:

All prices are indicative month-end levels for 2006 / 2007 vintages.

Historical Pricing on Senior Non-Agency Securities

Agency Spreads

FN 30-yr Current Coupon vs. LIBOR

30

40

50

60

70

80

90

100

Jan-08

Apr-08

Jul-08

Oct-08

Jan-09

Apr-09

Prime - 30 Year Fixed

Alt - A - 30 Year Fixed

Option Arm Super Senior

Market Opportunity

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(1)

Actual results will be impacted by the risks inherent in any mortgage backed securities portfolio, including by the matters discussed in the prospectus supplement filed with the SEC on 10/27/2017. Actual results may differ from those discussed in the prospectus supplement. The company does not assume any liability for the accuracy or completeness of the information in this prospectus supplement or for any omissions or misstatements in this prospectus supplement. The company assumes no liability for any omissions or misstatements in this prospectus supplement.

no
shareholder
conversions.

(2)
Haircut is defined as the percent of market value one must pledge as collateral to finance a security.

(3)
The following
assumptions
relating
to
prepayment,
defaults

and
losses
were
used
for
each
asset

type:

Agency

Hybrids:

15

Constant

Prepayment

Rate

(CPR);

Non-Agency

Super

Senior:

1

CPR,

30

Constant

Default

Rate

(CDR),

70 Loss Severity; Non-Agency Mezzanine: 4 CPR, 15 CDR, 70 Loss Severity; MBS Derivatives: 25 CPR. CPR refers to the percentage of borrowers that default on loans on an annualized basis and Loss Severity refers to the percentage of total net loss

(4)

Assumes borrowings of nine times invested equity.

(5)

Assumes One Month LIBOR at 31 basis points.

Hypothetical Portfolio

Hypothetical

Portfolio

Total leverage:

1.8x

(4)

(3)

(5)
(\$ in millions)
(2)
% of Equity
Finance
Interest
Interest
Return on
Security Type
Low
Mid
High
Equity
Haircut
Assets
Yield
Rate
Income
Expense
Equity
Agency hybrids
15%
20%
25%
\$50.2
10%
\$502.1
4%
1.0%
\$20.1
(\$4.5)
31.0%
Non-Agency super senior
35%
45%
55%
113.0
100%
113.0
16%

18.1

16.0%
Non-Agency mezzanine
10%
20%
30%
50.2
100%

50.2
30%

15.1

30.0%

MBS derivatives

5%

15%

25%

37.7

100%

37.7

40%

15.1

40.0%

100%

\$251.1

\$703.0

\$68.3

(\$4.5)

25.4%

Estimated shareholder equity:

\$251.1

(1)

In the discussions leading up to the execution of the merger agreement, Two Harbors presented the following hypothetical portfolio and review. This hypothetical portfolio information has not been updated to include subsequent developments reflected elsewhere and does not represent any actual assets held or borrowings made by Two Harbors. Instead, the presentation illustrates the types and amounts of assets Two Harbors believes should be available for purchase in the market and illustrates the costs of borrowings that Two Harbors believes should be available for purchase upon consummation of the merger at the prices assumed or returns from the portfolio are based on a number of assumptions detailed below. Actual results will be impacted by the risks in the amounts shown in the presentation below.

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Non-Agency Discount Example

Super Senior Bond backed by Option Arm

Collateral (CWALT 2006-OA17 2A1).

First 27.8% of loss is absorbed by
junior bonds.

Receives protection from the Senior
Support and Subordinate bonds
from credit losses.

Pays a coupon of COFI

(2)

+ 150bps,

where most Option Arms pay 1mo

Libor + a smaller margin.

SUPER

SENIOR BONDS

27.8%-100%

Illustrative non-Agency Security Investment

SUPPORT

BONDS

Voluntary CPR

(1)

of 1, which implies only

1% of the people in the trust (annually)

will be able to refinance.

A constant default rate of 35, which means

35% of the trust per year will be defaulted.

Loss severity of 70%, which assumes all

loans liquidated out of the trust will trade

for 30 cents on the dollar.

Purchase price: \$34.00.

Yield: 18.5 percent.

Security

Assumptions

Risk / Reward Profile of this Bond

(1)

Constant prepayment rate.

(2)

Other assumptions:

1%

voluntary

CPR,

35

CDR,

Cost

of

Funds

Index

(COFI)

flat

at

1.38%.

Dollar Price

50%

55%

60%

65%

70%

75%

\$34

44.0%

37.0%

31.0%

25.0%

18.0%

12.0%

Yields at Various Loss Severity Assumptions

Implied liquidation % of the entire pool: over 95 percent.

Implied total % loss on the collateral: 66.7 percent.

This bond does not represent an actual asset held by Two Harbors. Instead, the presentation illustrates the analysis PRCM Adv purchase by Two Harbors. There can be no assurance that an asset of the type presented will be available for purchase upon co

(2)

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The TALF Program

Potential Catalyst

Currently available for select Asset Backed and Commercial Mortgage Backed securities.

Treasury has proposed expansion to include certain non-Agency residential mortgage backed securities .

(1)

Key loan aspects expected to include:

Non-recourse financing;

Possible terms of up to 5-years

(2)

;

Haircuts and spreads based on average life and type of asset; and

Reduced spreads on loans benefiting from government guarantees.

Non-recourse term financing, such as that contemplated by TALF II, could have an impact on expected Return on Equity.

(1)

The timing of the expansion of the TALF to Non-Agency RMBS and the terms of such expansion have not yet been published expanded that TALF will offer financing terms that will be attractive to Two Harbors.

(2)

If TALF were expanded to RMBS, this assumes the term would follow the TALF expansion to CMBS.

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Source:

Merrill Lynch Fixed Income Strategy and J.P. Morgan Securities Inc.

Capacity constraints of mortgage originators.

Significant declines in homeowners equity reduces
borrower s ability to access funding.

Low

Loan

Balance

(LLB)

Fixed
costs

reduce

borrower's incentive; busy brokers avoid low-fee
business.

Fixed costs represent higher barriers to smaller
borrowers.

Prepayment speeds remain slower than 2003
despite government intervention.

Some prepayments likely to remain slower than
projections.

Prepayment Cycle Creates Pricing Opportunities

Fannie 30-yr. Prepayment Curves

Fannie 30-yr Prepayment Curves by Loan Attributes

0
10
20
30
40
50
60
70

Incentive to Prepay in bps

2003

July

2009 April

0
10
20
30
40
50
60
70

Incentive to Prepay in bps (April 2009)

LLB

Generic

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Agency Inverse IO Example

Agency Inverse IO bonds are an inherently levered way to take advantage of slow prepayment speeds on specific types of collateral pools, such as

LLBs.

5 CPR

15 CPR

25 CPR

35 CPR

45 CPR

53 CPR

Price 10-03

61.0%

53.0%

45.0%

31.0%

14.0%

(1.0%)

Yields at Various Prepayment Speeds

Agency Inverse IO Bond Example

Loan Size Data (as of July 2009)

Average

Original

Original

Current

Minimum

Maximum

\$68,300

\$64,700

\$21,000

\$85,000

1 month

Jul-09

24.3

Jun-09

17.9

May-09

18.6

Apr-09

14.4

Mar-09

18.4

Feb-09

13.2

Jan-09

8.1

Dec-08

5.6

Nov-08

9.3

Oct-08

8.1

Sep-08

7.2

Aug-08

8.4

Constant Prepayment

Rates (CPRs)

This bond does not represent an actual asset held by Two Harbors. Instead, the presentation illustrates the analysis PRCM Adv purchase by Two Harbors. There can be no assurance that an asset of the type presented will be available for purchase upon co

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Two Harbors

Investment Corp

Supported by 35 operational and administrative
professionals, including:

11 member accounting team;

3 member legal team;

7

member
operations
and
settlement

team;
and

6 member software development team.

Pine River Offers Extensive MBS Expertise

Two

Harbors

Co-Chief

Investment Officers

Steve Kuhn

Partner and Head of Fixed Income Trading.

Goldman Sachs Portfolio Manager from 2002 to 2007.

16 years investing in and trading mortgage backed securities and other fixed income

securities for firms including Goldman Sachs Asset Management, Citadel and Cargill.

Bill Roth

Portfolio Manager.

Citi and Salomon Brothers 1981

2009; Managing Director since 1997.

Managing Director in the bank's proprietary trading group managing MBS and ABS portfolios.

Pine River's RMBS strategy has returned 111.7% life to date net of fees and 69.8%

annualized net of fees since inception, February 2008.

(1)

(1)

For more

information with respect to the performance of

Pine River's RMBS strategy

including key assumptions used

in deriving

such performance, please see slide 8 entitled "Pine River's RMBS Strategy Historical Returns".

Jiayi Chen

Trader.

Formerly Goldman Sachs Asset

Management, risk management.

Brendan McAllister

Trader.

Formerly UBS Securities, member of top mortgage sales team.

Diana

Denhardt

Repo

Funding

Analyst.

20 years financing experience at EBF & Associates and Cargill.

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Two Harbors

Investment Corp

Two Harbors Investment Team Goals

Create highest return on equity in the mortgage REIT sector.

Capture significant capital appreciation resulting from government policies, including if TALF is expanded to cover RMBS.

Maintain investment flexibility across entire RMBS sector to best take advantage of opportunities as the mortgage market evolves.

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Opportunity for Investors
\$2.6
Cash and Cash Equivalents
\$9.48
Initial Book Value Per Share
(2)
Valuation Summary
(\$ in millions, except per share amounts)
August/September
2009
\$248.9
Initial Book Value

1.02x

Assumed Price/Initial Book Value

\$12.8

Less: Estimated Transaction & Other Expenses

Note:

Balance sheet

as of

March 31, 2009, balances and estimates subject to change.

(1)

As of

July 6, 2009.

(2)

Assumes

100%

of

sponsors

promote

shares

retired,

existing

33.2

million

warrants

amended

to

an

out-of-the-money

strike

price

of

\$11.00

and

no

shareholder

conversions.

26.25

Fully Diluted Shares (treasury method)

\$254.4

Fully Diluted Equity Value

\$259.1

Add: Cash Held in Trust

\$9.69

Assumed

Price

Per

Share

(1)

Capitol's common stockholders expected to create Two Harbors at or near Book Value.

Estimated Value at Closing

20

Two Harbors

Investment Corp

Efficient structure creates Two Harbors at a lower Price to Book Value, using less leverage

than other publicly traded residential mortgage REITs.

Target Leverage

(1)

Price to Book Value

Opportunity for Investors

(2)

(2)

(3)

(3)

0.7x

6.6x
6.6x
NA
1.0x
2.0x

1.0x
2.0x
3.0x
4.0x
5.0x
6.0x
7.0x
8.0x
Agency REIT
Mean
Chimera
Investment
Redwood
Trust
Invesco
Mortgage
Two
Harbors
Non-Agency REIT's
Non-Agency REIT Mean
Non-Agency
Mean:
3.6x
NA
2.9x
102.0%
121%
113%
156%
100%
50.0%
70.0%
90.0%
110.0%
130.0%
150.0%
170.0%
Agency REIT
Mean
Chimera
Investment
Corp
Redwood
Trust

Invesco
Mortgage
Two
Harbors
Non-Agency REIT's
Non-Agency REIT Mean
Non-Agency
Mean:

126%

Note:

Agency REIT Mean comprised of American Capital Agency, Annaly Mortgage, Anworth Mortgage, Capstead Mortgage, Cypri

Non-Agency REIT Mean comprised of Chimera Investment Corp., Invesco Mortgage and Redwood Trust. Prices as of July 6,

(1)

Target Leverage defined here as Total Liabilities divided by Total Equity.

(2)

Current leverage of 0.7x pro forma for recent equity offerings. Unadjusted for the equity offerings, target leverage would be 2.

(3)

Current leverage of 6.6x pro forma for recent equity offering. Unadjusted for the equity offering, target leverage would be 9.6x

Corp

21
Two Harbors
Investment Corp
0.5x
0.6x
0.7x
0.8x
0.9x
1.0x
1.1x
1.2x
1.3x
1.4x
1.5x
\$9.50

\$9.69
\$9.75
\$10.00
\$10.50
\$11.00
\$11.50
\$12.00
\$12.50
\$13.00
\$13.50
\$14.00
\$14.50

Common Price

Two Harbors Price to BV

Non-Agency REIT Mean Price to BV

Price to Book Value

Transaction expected to create Two Harbors closer to Book Value than would be possible in a traditional IPO or through secondary market purchases.

Opportunity for Investors

Note:

Assumes

100%

of

sponsors

promote

shares

retired,

existing

33.2

million

warrants

amended

to

an

out-of-the-money

strike

price

of

\$11.00

and

no

shareholder

conversions.

The

impact

of

this

benefit

is

reduced

in
the
case of
maximum
shareholder conversions.
Non-Agency
Mean: 1.26x

22

Two Harbors
Investment Corp
Structure Creates
Attractive Return
Profile

Severe dislocation has led to capital outflows and potential investment opportunities throughout the sector.

Government programs to inject liquidity into market provides additional upside.

Deep, broad experience and disciplined investment approach.

Generated 111.7% life to date net of fees and 69.8% annualized net of fees

(1)

and no negative return months since Steve Kuhn

launched Pine River's RMBS strategy in February 2008.
CLA's public stockholders expected to create Two Harbors at
1.02x initial Book Value vs. 1.26x average for non-Agency public
peers

(2)

High targeted return on equity with moderate leverage.

Market

Opportunity

Investment Team

Investment Summary

Building Next

Great Mortgage

REIT

Highly experienced team of mortgage specialists brought
together to create next great mortgage REIT franchise.

(1)

For more information with respect to the performance of Pine River's RMBS strategy including key assumptions used in deriv

(2)

Assumes

no

shareholder

conversions.

The

impact

of

this

benefit

is

reduced

in

the

case

of

maximum

shareholder

conversions.

Please

see

slide

24

entitled

Comparables:

Non-Agency

and

Agency

REITS

for

more

information.

24

Two Harbors

Investment Corp

Comparables: Non-Agency and Agency REITs

Source:

SNL Financial, FactSet and company filings.

Note:

REIT Means calculated using the average of the non-Agency peer group mean and the Agency peer group mean. Prices as of 3/31/2020.

(1)

Based on IBES consensus estimates, where available.

(2)

Most recent announced quarterly dividend annualized, divided by current share price.

(3)

Debt

/

Equity
Leverage
defined
here
as
Total
Liabilities
divided
by
Total
Equity.
(4)
Expense
ratio
is
all
non-interest
expense
less
non-recurring
expenses
and
any
provisions
for
loan
losses
divided
by
end
of
period
total
equity
for
the
most
recent
quarter.

(5)
Pro forma for \$851m equity offering (including private placement) on 4/15/2009 and for \$622m follow-on on 05/26/09.

(6)
Pro forma for \$250m equity offering on 05/26/09.

(7)
Market
cap
includes
Invesco
Ltd
private

placement
(1.5m
shares
offered
at
IPO
price
of
\$20.00).

Book
value
net
of
gross
spread
paid
by
IVR
of
1.5%

of
public
offering
and
other
IPO
expenses
of
\$1.9m.

Excludes
over-
allotment.

(\$ in millions, except per share data)

Price

Market

Price /

Div. Yield:

Debt /

%

Expense

Company

Ticker

07/06/09

Cap

2009E EPS

(1)

2010E EPS

(1)

Book

Most Recent

(2)
Equity
(3)
Agency
Ratio
(4)
Non-Agency REITs
Chimera Investment Corp.
(5)
CIM
\$3.43
\$2,299
8.2x
6.4x
1.21x
9.3%
0.7x
39%
3.4%
Redwood Trust
(6)
RWT
15.00
1,162
30.6
8.3
1.56
6.7
6.6
0
8.3
Invesco
Mortgage Capital Inc.
(7)
IVR
19.55
196
NA
NA
1.00
NA
NA
NA
NA
NA
Mean
19.4x
7.4x
1.26x
8.0%
3.6x

5.9%
Agency REITs
Annaly
Mortgage
NLY
\$15.50
\$8,437
6.4x
6.5x
1.06x
15.5%
6.4x
1.5%
MFA Mortgage
MFA
7.00
1,559
6.9
6.4
1.14
14.3
6.2
1.6
Hatteras Financial
HTS
28.02
1,014
6.1
6.0
1.26
15.7
7.1
1.5
Capstead
Mortgage
CMO
12.85
816
5.4
5.4
1.24
18.1
8.4
1.8
Anworth
Mortgage
ANH
7.29
741
6.0

6.1
1.09
16.5
6.7
2.2
American Capital Agency
AGNC
22.39
336
5.1
6.2
1.16
26.8
7.3
3.3
Cypress Sharpridge
Investments
CYS
11.95
200
5.0
NA
0.97
NA
3.9
3.3
Mean
5.8x
6.1x
1.13x
17.8%
6.6x
2.0%
Overall Mean
12.6
6.7x
1.20x
12.9%
5.1x
3.9

25

Two Harbors
Investment Corp

1.27x

1.02x

0.03x

(0.14x)

(0.13x)

(0.01x)

0.9x

1.0x

1.1x

1.2x

1.3x

1.4x

1.5x
Initial
Adjust warrants
Retire sponsor shares
Adjust deferred IPO fees
Transaction expenses
Final
We de-SPAC the SPAC
By re-striking warrants at \$11.00, retiring the sponsor shares, and restructuring the deferred fees, we de-SPAC the SPAC.

Current

CLA

Share

Price

(1)

Multiple

of

Book

Value

Non-Agency

Mean: 1.26x

(1)

As of July 6, 2009 closing price.

(2)

Assumes

no

shareholder

conversions.

The

impact

of

this

benefit

is

reduced

in

the

case

of

maximum

shareholder

conversions.

(2)

26

Two Harbors

Investment Corp

Restructured Warrants Source of Growth Capital

Consent requires majority of warrant holders.

Any cash warrant exercises will be at a premium to the initial liquidation value.

Proceeds expected to be redeployed in accretive investments.

Note:

Assumes re-strike of 33.249 million warrants at \$11.00, no shareholder conversions and exercise of all warrants for cash.

However, 7,000,000 warrants each relating to one share of stock of Two Harbors, which will be held by CLA's sponsors following the

consummation
of
the
merger,
are
exercisable
on
a
cashless
basis.

If
these warrants are exercised, the Book Value per Share would be
less than \$10.33 due to dilution and the greater the price of Two
Harbors
stock price at the time of exercise of these warrants, the
greater the dilutive impact.

Warrant Exercise

(\$ in millions, except per share data)

Warrant strike price to be amended to \$11.00.

Pre

Post

Book Value

\$248.9

\$614.6

Basic Shares Outstanding (mm)

26.25

59.50

Book Value per Share

\$9.48

\$10.33

% Increase

8.9%

27

Two Harbors

Investment Corp

Capitol Shareholder Options

Holders of record of CLA stock have the option of receiving a share of Two Harbors or a pro rata distribution of the cash held in CLA's trust (currently \$9.87).

Capitol Acquisition

Shareholder

The acquisition is approved

If unable to complete a transaction by 11/8/2009, shareholder receives pro rata share of cash-in-trust (currently \$9.87).

The acquisition is

rejected and CLA
liquidates in 11/09
Shareholder receives pro rata share
of cash-in-trust (currently \$9.87).
CLA shareholder
votes no
Shareholder holds share of
Two Harbors.
CLA shareholder
votes yes

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Two Harbors

Investment Corp

Experienced Team

Brian Taylor founded Pine River in 2002 and is responsible for management of the business and oversight of the funds. Prior to Pine River's inception, Brian was with EBF & Associates from 1988 to 2002; he was named head of the convertible arbitrage group from 1997. His responsibilities included portfolio management, marketing, product development, and trading information systems development. Brian has a B.S. from Millikin University in Decatur, Illinois and an M.B.A. from the University of Chicago and passed the Illinois CPA exam in 1997. Mark Ein has served as CEO of Capitol Acquisition Corp. since its inception in November 2007. Mark is the Founder and CEO of Venturehouse Group, LLC, a technology holding company that creates, invests in and builds technology, communication and services companies. Notable portfolio companies include Matrics Technologies, sold to Symbol Technologies in 2004; Cybernetics, sold to MACH S.a.r.l in 2007; and an early investment in XM Satellite Radio. He is also the President of Leland Investments, a private equity firm, also Co-Chairman and majority owner of Kastle Systems, a leading provider of building and office security systems. Mark is also a member of the Washington Kastles, the World Team Tennis franchise in Washington, D.C. From 1992 to 1999, Mark was a Principal with Carlyle. Prior to Carlyle, Mark worked at Brentwood Associates and Goldman, Sachs (in the commercial MBS group). Mark holds a B.S. from the University of Illinois at Chicago.

Pennsylvania's Wharton School of Finance and an M.B.A. from the Harvard Business School.

Minnetonka, MN from 1999 until 2006. He was the portfolio manager for Merced Partners, LP and Tamarack International LP.

Tom was named a partner of EBF in 1997. He supervised a staff of thirteen people located both in Minnesota and London. This staff consisted of traders, analysts and support personnel. Tom joined EBF in 1989 as a Trader. Prior to his employment at EBF, from 1987 to 1989, Tom held trading positions in the Financial Markets Department at Cargill, Inc. From 1981 until 1987 Tom was employed in the Domestic

Division at Cargill in both trading and managerial roles. Tom holds a B.B.A. from the University of Iowa with a major in Finance and a minor in Economics. Prior to joining Pine River in 2008, Steve was a Vice President and Portfolio Manager at Goldman Sachs

based in New York and Beijing from 2002 to 2007, where he was part of a team that managed approximately \$40 billion in mortgage-backed securities. From 1999 to 2002, Steve was a Japanese convertible bond trader at Citadel Investment Group in Chicago. Prior to that, he was a mortgage-backed securities trading at Cargill. He has 16 years mortgage-related trading experience. Steve holds a B.A. in Economics with Honors from the University of Iowa.

Bill has 28 years of experience in the Fixed Income Markets, with specific expertise in mortgage-backed and asset-backed securities. Prior to joining Pine River in 2009, Bill was Managing Director at Citigroup and its predecessor firm, Citicorp. From 2004 to 2009, Bill managed a proprietary trading book at Citigroup with particular focus on mortgage and asset-backed securities. Prior to 2004, Bill was part of the Salomon/Citi New York Mortgage Sales Department. From 1981 to 1994, Bill was based in Chicago and managed the Institutional Sales Group for Salomon. He was awarded the Masters in Business Administration with a concentration in Finance from the University of Chicago Graduate School of Business. Bill holds a B.S. in Finance and Economics from Miami University.

Brian Taylor, Chairman.

Mark D. Ein, Vice-Chairman.

Steve Kuhn, Co-Chief Investment Officer.

Bill Roth, Co-Chief Investment Officer.

Thomas Siering, Chief Executive & Director.

Prior to joining Pine River in 2006, Tom was head of the Value Investment Group at EBF & Associates in

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Two Harbors
Investment Corp
Experienced Team
Jeff
Stolt,
Chief
Financial
Officer.
Prior
to
co-founding
Pine
River
in

2002,
Jeff
was
the
Controller
at
EBF
&
Associates
from
1997
to
2002.

In
this
role, Jeff oversaw the preparation of all fund accounting statements, managed the offshore administrator relationship, managed responsible for tax planning and reporting. Jeff began employment with EBF in 1989. Prior to that, Jeff was an accountant in C Markets Department from 1986 until 1989. Jeff holds a B.S. in Accounting and Finance from the Minnesota State University.

Tim
O'Brien,
General
Counsel.

Prior
to
joining
Pine
River
in
2007,
Tim
previously
served
as
Vice
President
and
General
Counsel
of
NRG
Energy,

Inc. from 2004 until 2006. He served as Deputy General Counsel of NRG Energy from 2000 to 2004 and Assistant General Counsel. Prior to joining NRG, Tim was an associate at Sheppard, Mullin, Richter & Hampton in Los Angeles and San Diego, California.

History
from
Princeton
University
and
a
Juris

Doctor
degree
from
the
University
of
Minnesota
Law
School.
Tim
attended
an
eight-week
Advanced
Management Program at Harvard Business School in the spring of 2007.

Andrew
Garcia,
VP
Business
Development.

Prior
to
joining
in
2008,
Andrew
was
the
Event
Driven
and
Business
Combination
Companies
(SPAC)
specialist
in
the
Capital
Markets
division
at
Maxim
Group
in
New
York.
Before
joining
Maxim

Group,
he
was
the
head
trader
at
Laterman
&
Company.

From 2001 to 2005, he covered institutional event-driven and risk arbitrage investors as a sales trader, equity sales person, and person at Cathay Financial, Oppenheimer & Co., and CIBC Oppenheimer Corp. Andrew holds a B.A. from Kenyon College.

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Two Harbors

Investment Corp

Contact Details

Mark Ein

Chairman and CEO

Capitol Acquisition Corp.

202 654 7001

mark@capitolacquisition.com

For further information, please contact:

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VP of Business Development

Two Harbors Investment Corp.

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