PennyMac Mortgage Investment Trust Form 424B5 February 14, 2011

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Filed Pursuant to Rule 424(b)(5) Registration Statement No. 333-168699

Prospectus Supplement (To prospectus dated September 24, 2010)

9,500,000 Shares

# PennyMac Mortgage Investment Trust

# Common Shares \$18.00 per share

We are offering 9,500,000 of our common shares of beneficial interest, par value \$0.01 per share, or common shares. Stanford L. Kurland, our Chief Executive Officer and Chairman of our Board of Trustees, is purchasing 50,000, David A. Spector, our President and Chief Operating Officer and member of our Board of Trustees, is purchasing 10,000, and Frank P. Willey, a member of our Board of Trustees, is purchasing 15,000, of our common shares in this offering.

We have granted the underwriters an option to purchase up to 1,425,000 additional common shares to cover over-allotments.

Our common shares are listed on the New York Stock Exchange, or the NYSE, under the trading symbol "PMT." The last reported sale price of our common shares on the NYSE on February 10, 2011 was \$18.18 per share.

We impose certain restrictions on the ownership and transfer of our common shares. You should read the information under the section entitled "Description of Shares of Beneficial Interest Restrictions on Ownership and Transfer" in the accompanying prospectus for a description of these restrictions.

Investing in our common shares involves certain risks. See "Risk Factors" beginning on page S-6 of this prospectus supplement and in the reports we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about factors you should consider before making an investment in our common shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$18.0000	\$ 171,000,000
Underwriting Discount	\$ 0.7596	\$ $7,159,230_{(1)}$
Proceeds, Before Expenses, to Us	\$17.2404	\$ $163,840,770_{(1)}$

(1)

An aggregate of 75,000 common shares being purchased in this offering by our Chief Executive Officer and Chairman of our Board of Trustees, our President and Chief Operating Officer and member of our Board of Trustees, and one other member of our Board of Trustees are not subject to the underwriting discount.

The underwriters expect to deliver the common shares to purchasers on or about February 16, 2011 through the book-entry facilities of The Depository Trust Company.

Sole Book-Running Manager

Citi

Co-Managers

CastleOak Securities, L.P.

February 10, 2011

**Siebert Capital Markets** 

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission, or the SEC. We have not, and the underwriters have not, authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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#### ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read this entire document, including this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference. In the event that the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. To the extent the information contained in or incorporated by reference into this prospectus supplement differs or varies from the information contained in or incorporated by reference into this prospectus, the information contained in or incorporated by reference into this prospectus supplement updates and supersedes such information.

Unless otherwise indicated or the context requires otherwise, references in this prospectus supplement to "we," "us," "our" and "our company" mean PennyMac Mortgage Investment Trust and its consolidated subsidiaries, including PennyMac Operating Partnership, L.P., or our operating partnership.

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, as well as the documents we incorporate herein and therein by reference, contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "approximately," "believe," "could," "project," "predict," "continue," "plan" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Examples of forward-looking statements include: (i) projections of our revenues, income, earnings per share, capital structure or other financial items; (ii) descriptions of our plans or objectives for future operations, products or services; (iii) forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and (iv) descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. There are a number of factors, many of which are beyond our control, that could cause actual results to differ significantly from our expectations.

You should not place undue reliance on any forward-looking statement, each of which speaks only as of the date on which it is made. We expressly state that we have no current intention to update any forward-looking statement, whether as a result of new information, future events or otherwise, unless required by law.

Factors that could cause our actual results and performance to differ materially from historical results or those anticipated include, but are not limited to:

changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;

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volatility in our industry, interest rates and spreads, the debt or equity markets, the general economy or the residential finance and real estate markets specifically, whether the result of market events or otherwise;

events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;

changes in general business, economic, market, employment, consumer confidence and spending habits and political conditions from those expected;

continued declines in residential real estate and significant changes in U.S. housing prices and/or activity in the U.S. housing market;

the availability of, and level of competition for, attractive risk-adjusted investment opportunities in residential mortgage loans and mortgage-related assets that satisfy our investment objectives and investment strategies;

our success in winning bids to acquire loans;

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

changes in personnel and lack of availability of qualified personnel;

our dependence on PNMAC Capital Management, LLC, or PCM, and PennyMac Loan Services, LLC, or PLS, and potential conflicts of interest with PCM, PLS and their affiliated entities, and the performance of such entities;

the availability, terms and deployment of short-term and long-term capital;

the adequacy of our cash reserves and working capital;

the occurrence of an event that triggers a cross default under borrowing arrangements;

our ability to match the interest rates and maturities of our assets with our financing;

the timing and amount of cash flows, if any, from our investments;

unanticipated increases in financing and other costs, including a rise in interest rates;

the performance, financial condition and liquidity of borrowers;

incomplete or inaccurate information provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;

the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;

increased rates of delinquency, default and/or decreased recovery rates on our investments;

our ability to foreclose on our investments in a timely manner or at all;

increased prepayments of the mortgages and other loans underlying our mortgage-backed securities, or MBS, and other investments;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

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the effect of the accuracy of, or changes in the estimates we make about, uncertainties and contingencies when measuring and reporting upon our financial condition and results of operations;

our failure to maintain appropriate internal controls over financial reporting;

developments in the secondary markets for our mortgage loan products;

legislative and regulatory changes that impact the mortgage loan industry or housing market;

changes in regulations or the occurrence of other events that impact the business, operation or prospects of government-sponsored entities;

the Dodd-Frank Wall Street Reform and Consumer Protection Act and any other legislative and regulatory changes that impact the business, operations or governance of publicly-traded companies;

changes in government support of homeownership;

changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of real estate investment trusts, or REITs, or the exclusions from registration as an investment company);

limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a REIT for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 and the ability of certain of our subsidiaries to qualify as REITs and certain of our subsidiaries to qualify as taxable REIT subsidiaries for U.S. federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

estimates relating to our ability to make distributions to our shareholders in the future;

the effect of public opinion on our reputation; and

the occurrence of natural disasters or other events or circumstances that could impact our operations.

These factors and the other risk factors described in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, are not necessarily all of the important factors that could cause our actual results and performance to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could adversely affect our actual results and performance. Consequently, there can be no assurance that the results or performance anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us.

#### **SUMMARY**

This summary highlights information about us and the common shares being offered by this prospectus supplement and the accompanying prospectus. This summary is not complete and may not contain all of the information that you should consider prior to investing in our common shares. For a more complete understanding of our company, we encourage you to read this entire document, including the information incorporated by reference in this document and the other documents to which we have referred.

#### PennyMac Mortgage Investment Trust

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through distributions and secondarily through capital appreciation. We intend to achieve this objective primarily by investing in mortgage loans, a substantial portion of which may be distressed and acquired at discounts to their unpaid principal balances. We acquire these loans through direct acquisitions of mortgage loan portfolios from institutions such as banks, mortgage companies and insurance companies and direct acquisitions or participations in structured transactions. We seek to maximize the value of the mortgage loans that we acquire using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs, special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage delinquency, our objective is to effect timely acquisition and/or liquidation of the property securing the loan. We may supplement these activities through participation in other mortgage-related activities, which are in various states of analysis, planning or implementation, including: (i) the acquisition and sale or securitization of mortgage loans in a conduit capacity between originators of mortgage loans and the MBS markets; (ii) the acquisition of REIT-eligible MBS; (iii) providing inventory financing of mortgage loans for smaller mortgage originators; (iv) the acquisition of mortgage servicing rights; (v) the underwriting and funding of mortgage loans sourced by financial intermediaries; and (vi) the acquisition of residential real estate.

We are externally managed by our affiliate, PCM, pursuant to a management agreement. PCM is an investment adviser registered with the SEC that specializes in, and focuses on, residential mortgage loans. The loans we hold in our investment portfolio are serviced on our behalf primarily by another affiliate, PLS, pursuant to a loan servicing agreement.

We conduct substantially all of our operations, and make substantially all of our investments, through our operating partnership and its subsidiaries. A wholly-owned subsidiary of ours is the sole general partner, and we are the sole limited partner, of our operating partnership.

We believe that we qualify, and we have elected to be taxed, as a REIT under the Internal Revenue Code of 1986, or the Internal Revenue Code, beginning with our taxable period ended on December 31, 2009.

#### **Recent Developments**

#### Pending Portfolio Acquisitions

We intend to purchase from an affiliate of Citigroup Global Markets Inc., one of the underwriters for this offering, two portfolios of residential whole mortgage loans for an aggregate purchase price of \$250.5 million at a discount to unpaid principal balance.

The first portfolio which we have agreed to purchase consists of residential whole mortgage loans with an aggregate purchase price of \$113.3 million. Our acquisition of the portfolio is subject to the completion of our due diligence and other customary conditions. The portfolio is comprised of non-performing mortgage loans secured by first liens on residential properties. We currently expect to acquire the portfolio during February 2011. Our acquisition will be made pursuant to trade

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documentation that does not contain representations and warranties of the seller regarding the performance of the loans. We have the right to perform due diligence prior to the closing of the acquisition and will acquire the loans on an "as is" and non-recourse basis against the seller, but subject to limited representations and warranties and limited indemnification.

The following data concerning the portfolio as of February 1, 2011 have not been audited and are subject to change as a result of loans being removed from the portfolio prior to our acquisition (ranges in parentheses; percentages are based on the aggregate unpaid principal balance of the loans):

Weighted average age (months)	54 (20 to 319)
First liens with second lien (%	
of pool)	16.70%
Property value change	
(origination to current)	-36.78%
Weighted average delinquency	
(months)	11 (1 to 43)
Percentage of loans 30-59 days	
delinquent	0.11%
Percentage of loans 60-89 days	
delinquent	6.63%
Percentage of loans 90+ days	
delinquent	93.26%
Percentage of REO properties	
Percentage of loans in	
bankruptcy	
Geographic concentration in	
excess of 5.00% of the total	
unpaid principal balance:	
California	18.00%
Florida	11.56%
New York	9.19%
Illinois	5.61%
Maryland	5.60%

We also recently reached an agreement in principle to purchase from an affiliate of Citigroup Global Markets Inc., one of the underwriters, an additional portfolio of residential whole mortgage loans for an aggregate purchase price of \$137.2 million. The additional portfolio is comprised of non-performing mortgage loans secured by first liens on residential properties. We currently expect to acquire the portfolio concurrently with the pending acquisition described above. Our agreement in principle is not a written agreement and we have agreed to enter into trade documentation for the acquisition that is substantially similar to the documentation for the pending acquisition described above. There can be no assurance that we will enter into such documentation and acquire the additional portfolio. Consistent with the pending acquisition described above, we anticipate that the trade documentation will not contain representations and warranties of the seller regarding the performance of the loans. We anticipate that we will have the right to perform due diligence prior to the closing of the additional acquisition and will acquire the loans on an "as is" and non-recourse basis against the seller, but subject to limited representations and warranties and limited indemnification.

The following data concerning the additional portfolio as of February 1, 2011 have not been audited and are subject to change as a result of loans being removed from the portfolio prior to

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acquisition (ranges in parentheses; percentages are based upon the aggregate unpaid principal balances of the loans):

We have also reached an understanding with Citibank, N.A., the lender under one of the master repurchase agreements described below under "Other" and an affiliate of one of the underwriters, to increase the availability under such master repurchase agreement in order to provide financing for a portion of the purchase price of the portfolios, subject to legal documentation. There can be no assurance that we will obtain this or other financing for the acquisition of the portfolios or that we will acquire the portfolios on the terms described above in whole or in part.

#### Recent Financial Results

On February 2, 2011, we announced our fourth quarter and full year 2010 unaudited financial results. We reported net income for the fourth quarter of 2010 of \$7.3 million, or \$0.43 per diluted share, on total investment income of \$13.6 million. Our net income for 2010 was \$24.5 million, or \$1.44 per diluted share, on total net investment income for the year of \$44.1 million. Our total assets as of December 31, 2010 were \$589.1 million and our total shareholders' equity was \$319.9 million. At that date, our loans and securities sold under agreements to repurchase aggregated \$248.6 million and our total liabilities were \$269.2 million. Our independent public accountants have not completed the audit of our financial statements for the fourth quarter and the full year of 2010, and, as a result, the financial results and other information contained in this paragraph remain subject to change.

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#### Other

During the fourth quarter of 2010, we entered into two master repurchase agreements, in an aggregate principal amount of up to \$225 million, for the purpose of financing our investments in distressed mortgage assets, including non-performing whole loans and real estate acquired in the settlement of loans, or REO, pending sale, liquidation, securitization or other structured financing. During the quarter, we also entered into a master repurchase agreement, in an aggregate principal amount of up to \$75 million, to fund newly originated prime mortgage loans purchased from correspondent lenders through our conduit operation.

On December 27, 2010, we declared a cash dividend of \$0.42 per common share. This dividend was paid on January 28, 2011 to common shareholders of record on January 12, 2011. Purchasers in this offering will not be entitled to receive this dividend. During 2010, we declared dividends totaling \$1.19 per share.

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#### The Offering

Issuer

Common shares offered by us

Common shares to be outstanding after this

Use of proceeds

Ownership limit

Listing Risk factors PennyMac Mortgage Investment Trust

9,500,000 common shares (10,925,000 common shares if the underwriters' over-allotment

option is exercised in full)

26,332,343 common shares (27,757,343 common shares if the underwriters' over-allotment

option is exercised in full)<sup>(1)</sup>

We expect that the net proceeds from this offering will be approximately \$163.8 million after deducting the underwriting discount, our estimated expenses and reimbursement of expenses by the underwriters (or approximately \$188.4 million if the underwriters' over-allotment option is exercised in full). We intend to use the net proceeds from this offering to fund a portion of the purchase price of two portfolios of residential whole mortgage loans as described above under

Recent Developments Pending Portfolio Acquisitions." See "Use of Proceeds."

Subject to certain exceptions, our declaration of trust restricts ownership of more than 9.8% by vote or value, whichever is more restrictive, of our outstanding common shares, or 9.8% by vote or value, whichever is more restrictive, of our outstanding shares of beneficial interest in order to protect our status as a REIT for U.S. federal income tax purposes. See "Description of Shares of Beneficial Interest Restrictions on Ownership and Transfer" in the accompanying

prospectus.

Our common shares are listed on the NYSE under the trading symbol "PMT."

An investment in our common shares involves risks, and prospective investors should carefully consider the matters discussed under "Risk Factors" beginning on page S-6 of this prospectus supplement, as well as the reports we file with the SEC pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, incorporated by reference in this prospectus supplement and the accompanying prospectus, before making a decision to invest in our common shares.

(1)

The number of common shares to be outstanding after this offering is based on 16,832,343 common shares outstanding as of February 8, 2011, which excludes 272,984 common shares that are issuable upon the vesting of restricted share units that were granted under our equity incentive plan.

#### RISK FACTORS

Investing in our common shares involves risks. You should carefully read and consider the risks described below, as well as the risks described in the section entitled "Risk Factors" in our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, and the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus, before making a decision to invest in our common shares. Each of these risks could materially and adversely affect our business, financial condition, results of operations and prospects, and could result in a partial or complete loss of your investment.

#### Risks Related to our Pending Acquisitions of Two Portfolios of Residential Whole Mortgage Loans

The first portfolio of residential whole mortgage loans that we have agreed to acquire, as described under "Summary Recent Developments Pending Portfolio Acquisitions," is comprised of non-performing mortgage loans (meaning that the borrowers have failed to make timely payments of principal and/or interest for at least 30 days) secured by first liens on residential properties. As of February 1, 2011, 93.26% of the aggregate unpaid principal balance of loans in this portfolio were 90 or more days delinquent.

The additional portfolio of residential whole mortgage loans that we have agreed in principle to acquire, as described under "Summary Recent Developments Pending Portfolio Acquisitions," is also comprised of non-performing mortgage loans (meaning that the borrowers have failed to make timely payments of principal and/or interest for at least 30 days) secured by first liens on residential properties. As of February 1, 2011, 96.67% of the aggregate unpaid principal balance of loans in this portfolio were 90 or more days delinquent.

Borrowers on the loans in the pending portfolio acquisitions may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable to make payments when due. We may incur significant expense in pursuing resolution of the loans in the portfolios and may not be able to recover our investment in the loans.

PLS provides primary servicing and special servicing for our portfolio of residential mortgage loans, and will generally provide servicing for these portfolios following our acquisition thereof. PLS's responsibilities include loan workouts and modifications, foreclosure proceedings, short sales and liquidations of REO acquired as a result of foreclosures of mortgage loans. PLS has only a limited operating history, and we have no in-house capability to handle these services independently of PLS. As a result, the performance of the portfolios will be dependent upon PLS's ability to effectively service, modify or otherwise favorably resolve the loans.

In addition, our acquisition of these portfolios will be made pursuant to trade documentation that does not contain representations and warranties of the seller regarding the performance of the loans. We will acquire the loans on an "as is" and non-recourse basis against the seller, but subject to limited representations and warranties and limited indemnification. As a result, we will not have a contractual right to seek indemnity or demand repurchase or substitution of the loans in these portfolios as a result of poor performance of the loans.

We have also reached an understanding with Citibank, N.A., the lender under one of the master repurchase agreements described above under "Summary Recent Developments Other" and an affiliate of one of the underwriters, to increase the availability under such master repurchase agreement in order to provide financing for a portion of the purchase price of the portfolios, subject to legal documentation. There can be no assurance that we will obtain this or other financing for the acquisition of the portfolios.

The portfolios may not perform as we expect. Any losses we incur relating to the portfolios may be significant and may negatively and adversely affect our results of operations, cash flow and financial

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condition, reduce our ability to make distributions to our shareholders and adversely affect the market value of our common shares.

Our agreement in principle to acquire the additional portfolio of non-performing loans is not a written agreement and we have agreed to enter into trade documentation for the acquisition, but there can be no assurance that we will enter into such documentation and acquire the additional portfolio.

Our acquisition of the portfolios of whole mortgage loans is subject to the completion of our due diligence and other customary conditions. There can be no assurance that we will acquire the portfolios in whole or in part on the terms described herein.

#### Risks Related to This Offering

The market price and trading volume of our common shares could be volatile and could decline, resulting in a substantial or complete loss of your investment.

The stock markets, including the NYSE, which is the exchange on which we list our common shares, have experienced significant price and volume fluctuations. As a result, the market price of our common shares could be similarly volatile, and investors in our common shares may experience a decrease in the value of their common shares, including decreases unrelated to our operating performance or prospects. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common shares include:

actual or anticipated changes in our operating results or business prospects;
changes in earnings estimates by securities analysts;
an inability to meet or exceed securities analysts' estimates or expectations;
difficulties or inability to access capital or extend or refinance existing debt;
publication of research reports about us or our industry by securities analysts;
conditions or trends in our industry or sector;
actual or perceived conflicts of interest with PCM, PLS and their affiliated entities and individuals, including our officers;
strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
the passage of legislation or other regulatory developments that adversely affect us or our industry;
hedging or arbitrage trading activity in our common shares;
adverse market reaction to the level of leverage we employ;

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future sales of our common shares or securities convertible into, or exchangeable or exercisable for, our common shares, or the perception that such sales may occur;
additions or departures of key personnel at PCM and/or PLS, including our officers, or a change in control at either of these entities;
changes in accounting principles;
changes in interest rates;
speculation in the press or investment community;
actions by institutional shareholders;

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failure to maintain our REIT qualification or exclusion from the Investment Company Act of 1940;

the realization of any of the other risk factors contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus; and

general market and economic conditions, including continued volatility in the financial and credit markets.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their share price. This type of litigation could result in substantial costs and divert our management's attention and resources.

#### This offering may be dilutive, and there may be future dilution of our common shares.

This offering may have a dilutive effect on our earnings per share, REIT taxable income per share and/or book value per share for the year ending December 31, 2011. The actual amount of dilution, if any, cannot be determined and will be based on numerous factors. Our board of trustees is authorized under our declaration of trust to, among other things, authorize the issuance of additional common shares or the issuance of preferred shares of beneficial interest or securities convertible or exchangeable into equity securities, without shareholder approval. We may issue such additional equity or convertible securities to raise additional capital. Holders of our common shares have no preemptive rights that entitle them to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. We cannot predict the size of future issuances or sales of our common shares or other equity securities into the public market or the effect, if any, that such issuances or sales may have on the market price of our common shares.

We may issue debt or equity securities or securities convertible into equity securities, any of which may be senior to our common shares as to distribution and in liquidation.

In the future, we may issue debt or additional equity securities or securities convertible into or exchangeable for equity securities, or we may enter into debt-like financing that is unsecured or secured by up to all of our assets. Such securities may be senior to our common shares as to distributions. In addition, in the event of our liquidation, our lenders and holders of our debt and preferred securities, if any, would receive distributions of our available assets before distributions to the holders of our common shares.

We have not established a minimum distribution payment level and no assurance can be given that we will be able to make distributions to our shareholders in the future at current levels or at all.

We are generally required to distribute to our shareholders at least 90% of our taxable income each year for us to qualify as a REIT under the Internal Revenue Code, which requirement we currently intend to satisfy. To the extent we satisfy the 90% distribution requirement but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. We have not established a minimum distribution payment level, and our ability to make distributions to our shareholders may be adversely affected by the risk factors contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. Although we have made, and anticipate continuing to make, quarterly distributions to our shareholders, our board of trustees has the sole discretion to determine the timing, form and amount of any future distributions to our shareholders, and such determination will depend upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such

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other matters as our board of trustees may deem relevant from time to time. Among the factors that could impair our ability to continue to make distributions to our shareholders are:

our inability to invest the net proceeds from our equity offerings;

our inability to make attractive risk-adjusted returns on our current and future investments;

non-cash earnings or unanticipated expenses that reduce our cash flow;

defaults in our investment portfolio or decreases in its value; and

the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that we will be able to continue to make distributions to our shareholders in the future or that the level of any future distributions will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our common shares.

#### **Risks Related to our Business**

We leverage our investments, which may adversely affect our return on our investments and may reduce cash available for distribution to our shareholders.

In addition to the business-related risks described in our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, we are also subject to the risks summarized below.

We currently leverage and, to the extent available, we intend to continue to leverage our investments through borrowings, the level of which may vary based on the particular characteristics of our investment portfolio and on market conditions. We have leveraged certain of our investments through repurchase agreements. When we enter into repurchase agreements, we sell securities or mortgage loans to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same assets back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the assets to the lender is less than the value of those assets (this difference is referred to as the haircut), if the lender defaults on its obligation to resell the same assets back to us we could incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the assets). In addition, repurchase agreements generally allow the counterparties, to varying degrees, to determine a new market value of the collateral to reflect current market conditions. If such counterparties determine that the value of the collateral has decreased, it may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing. Should this occur, in order to obtain cash to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses.

Some of the lenders under our repurchase agreements require us and/or our subsidiaries to comply with various financial covenants, including those relating to tangible net worth, profitability and our ratio of total liabilities to tangible net worth. Certain of our lenders also require us to maintain minimum amounts of cash or cash equivalents sufficient to maintain a specified liquidity position. In the event that we are unable to maintain these liquidity levels, we could be forced to sell additional investments at a loss and our financial condition could deteriorate rapidly.

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In addition, the repurchase agreements contain events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of financial and other covenants and/or certain representations and warranties, cross-defaults, servicer termination events, guarantor defaults, bankruptcy or insolvency proceedings and other events of default customary for these types of facilities. The remedies for such events of default are also customary for these types of facilities and include the acceleration of the principal amount outstanding and the liquidation by the lender of the assets then subject to the respective facilities. If we default on one of our obligations under a repurchase agreement, the lender may be able to terminate the transaction, accelerate any amounts outstanding and cease entering into any other repurchase transactions with us. To the extent our repurchase agreements contain cross-default provisions, a default that occurs under any one agreement could allow the lenders under our other agreements to also declare a default. Any losses we incur on our repurchase agreements could materially and adversely affect our earnings, financial condition and our cash available for distribution to our shareholders.

Subject to market conditions and availability, we may in the future utilize other sources of borrowings, including bank credit facilities and structured financing arrangements, among others. The percentage of leverage we employ varies depending on our available capital, our ability to obtain and access financing arrangements with lenders and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. Our governing documents contain no limitation on the amount of debt we may incur. Our return on our investments and cash available for distribution to our shareholders may be reduced to the extent that changes in market conditions increase the cost of our financing relative to the income that can be derived from the investments acquired. Our debt service payments will reduce cash flow available for distribution to shareholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or sale to satisfy the obligations.

#### **Risks Related to Taxation**

A recent IRS administrative pronouncement with respect to investments by REITs in distressed debt secured by both real and personal property, if interpreted adversely to us, could cause us to pay penalty taxes or potentially to lose our REIT status.

In addition to the tax-related risks described in our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, we are also subject to the risks summarized below.

Most of the mortgage loans that we acquire are acquired by us at a discount from their outstanding principal amount, because our pricing is based on the value of the underlying real estate that secures those mortgage loans.

Treasury Regulation Section 1.856-5(c) (the "interest apportionment regulation") provides rules for determining what portion of the interest income from mortgage loans that are secured by both real and personal property is treated as "interest on obligations secured by mortgages on real property or on interests in real property." Under the interest apportionment regulation, if a mortgage covers both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest "principal amount" of the loan during the year. The Internal Revenue Service, or the IRS, has recently issued a revenue procedure, Revenue Procedure 2011-16, that contains an example regarding the application of the interest apportionment regulation. The example interprets the "principal amount" of the loan to be the face amount of the loan, despite the Internal Revenue Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the loan

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and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal.

The interest apportionment regulation applies only if the debt in question is secured both by real property and personal property. We believe that all of the mortgage loans that we acquire are secured only by real property and no other property value is taken into account in our underwriting and pricing. Accordingly, we believe that the interest apportionment regulation does not apply to our portfolio.

Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by property other than real estate, that the interest apportionment regulation applied for purposes of our REIT testing, and that the position taken in Revenue Procedure 2011-16 should be applied to our portfolio, then depending upon the value of the real property securing our loans and their face amount, and the sources of our gross income generally, we might not be able to meet the 75% REIT gross income test discussed under "U.S. Federal Income Tax Considerations Income Tests" in the accompanying prospectus. If we did not meet this test, we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS.

#### Dividends payable by REITs do not generally qualify for the reduced tax rates applicable to certain corporate dividends.

Recently enacted legislation has extended, through taxable years beginning on or before December 31, 2012, the 15% maximum tax rate for dividends paid by certain corporations, as well as the 15% capital gains rate, applicable to eligible domestic shareholders that are individuals, trusts and estates. Dividends paid by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

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#### **USE OF PROCEEDS**

We expect that the net proceeds from this offering will be approximately \$163.8 million after deducting the underwriting discount, our estimated expenses and reimbursement of expenses by the underwriters (or approximately \$188.4 million if the underwriters' over-allotment option is exercised in full). We intend to use the net proceeds from this offering to fund a portion of the purchase price of two portfolios of residential whole mortgage loans as described above under "Summary Recent Developments Pending Portfolio Acquisitions." Pending this use, we may make investments in cash equivalents or high-grade, short-term securities for temporary cash management, consistent with our qualification as a REIT. Our acquisition of the portfolios of residential whole mortgage loans is not assured and if for any reason we do not acquire all or a portion of the portfolios, we will use any remaining proceeds from this offering for general corporate purposes, including funding our investment activity.

An affiliate of Citigroup Global Markets Inc., one of the underwriters for this offering, is the seller of the portfolios of residential whole mortgage loans. See "Underwriting."

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#### **CAPITALIZATION**

The following table sets forth our capitalization (a) as of September 30, 2010, and (b) as of September 30, 2010, as adjusted to reflect the sale of the 9,500,000 common shares offered hereby (assuming the underwriters' over-allotment option is not exercised).

	As of September 30, 2010		
	Historical As Adjusted (Dollars in thousands)		
	unaudited		
Debt:			
Securities sold under agreements to repurchase <sup>(1)</sup>	\$116,139	\$	116,139
Shareholders' Equity:			
Common shares of beneficial interest authorized, 500,000,000 shares of \$0.01 par value; issued and			
outstanding, 16,832,343 (historical), and 26,332,343 shares (as adjusted)	168		263
Additional paid-in capital	316,952		480,793
Retained earnings (accumulated deficit)	9,360		9,360
Total equity	326,480		490,416
Total capitalization	\$442,619	\$	606,555

(1)

Loans and securities sold under agreements to repurchase as of December 31, 2010 were \$248.6 million. Total liabilities as of September 30, 2010 and December 31, 2010 were \$127.5 million and \$269.2 million, respectively. Excludes liabilities incurred subsequent to December 31, 2010, including any indebtedness that may be incurred in connection with the acquisition of the portfolios.

#### UNDERWRITING

Citigroup Global Markets Inc. is acting as sole book-running manager of this offering, and as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of common shares set forth opposite the underwriter's name.

	Number of
Underwriter	Shares
Citigroup Global Markets Inc.	9,025,000
CastleOak Securities, L.P.	237,500
Muriel Siebert & Co., Inc.	237,500
Total	9,500,000

The underwriting agreement provides that the obligations of the underwriters to purchase the common shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the common shares (other than those covered by the over-allotment option described below) if they purchase any of the common shares.

Common shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any common shares sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price not to exceed \$0.45576 per share. If all the common shares are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms.

If the underwriters sell more common shares than the total number set forth above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 1,425,000 additional common shares at the public offering price less the underwriting discount. The underwriters may exercise the option for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter will be obligated to purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment. Any common shares issued or sold under the option will be issued and sold on the same terms and conditions as the other common shares that are the subject of this offering.

We and each of our executive officers and trustees have agreed that, for a period of 90 days from the date of this prospectus supplement, subject to certain exceptions, we and they will not, without the prior written consent of Citigroup Global Markets Inc.:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any of our common shares or any securities convertible into or exchangeable or exercisable for our common shares; or

enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of our common shares;

whether any such swap or transaction is to be settled by delivery of common shares or other securities, in cash or otherwise. Citigroup Global Markets Inc., in its sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice. Notwithstanding the foregoing, during the restricted period, our executive officers and trustees may, without the prior written consent of Citigroup Global Markets Inc., transfer common shares:

as a bona fide gift or gifts;

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as a donation to a charitable organization;

by will or the laws of descent and distribution;

to any trust for the direct or indirect benefit of such executive officer or trustee or their immediate family;

to any corporation, partnership, limited liability company or other entity to the extent such entity is wholly owned by such executive officer or trustee and/or members of their immediate family; or

as forfeitures to satisfy tax withholding obligations of such executive officer or trustee in connection with the vesting of equity awards acquired pursuant to our equity incentive plan;

provided that in the case of the first five bullets above, (i) each transferee or donee agrees in writing to the restrictions set forth above, (ii) no filing by any party shall be required or shall be voluntarily made in connection with such transfer or distribution (other than a filing under Section 16 of the Exchange Act, or a filing made on Schedule 13D or Schedule 13G made after the expiration of the 90-day lock-up period), (iii) each party shall not be required by law to make, and agrees to not voluntarily make, any public announcement of the transfer or disposition and (iv) such executive officer or trustee notifies Citigroup Global Markets Inc. at least three business days prior to the proposed transfer or disposition. If (i) during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. However, such extension will not apply if, within three business days prior to the 15th calendar day before the last day of the restricted period, we deliver a certificate signed by our Chief Executive Officer or Chief Financial Officer, certifying that (i) our common shares are "actively traded securities" as defined in Regulation M, and (ii) we meet the requirements set forth in Rule 139 under the Securities Act of 1933, as amended, or the Securities Act, for the publication of issuer-specific research reports.

Stanford L. Kurland, our Chief Executive Officer and Chairman of our Board of Trustees, is purchasing 50,000, David A. Spector, our President and Chief Operating Officer and member of our Board of Trustees, is purchasing 10,000, and Frank P. Willey, a member of our Board of Trustees, is purchasing 15,000, of our common shares in this offering.

The common shares are listed on the NYSE under the symbol "PMT."

The following table shows the per share and total underwriting discount that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option.

	Paid by Us			
	No Exercise		Full Exercise	
Per share	\$	0.7596	\$	0.7596
Total	\$	7,159,230(1)	\$	8,241,660(1)

(1)

An aggregate of 75,000 common shares being purchased in this offering by our Chief Executive Officer and Chairman of our Board of Trustees, our President and Chief Operating Officer and member of our Board of Trustees, and one other member of our Board of Trustees are not subject to the underwriting discount.

We estimate that the total expenses of the offering that are payable by us, not including the underwriting discount, will be \$427,500. The underwriters have agreed to reimburse us for the expenses we incur in connection with this offering, in an amount up to \$427,500 (plus up to 0.25% of the total public offering price of any common shares sold as a result of the exercise of the underwriters' over-

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allotment option). In no event will such reimbursement by the underwriters exceed the amount of expenses actually incurred by us.

In connection with the offering, the underwriters may purchase and sell common shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the over-allotment option, and stabilizing purchases.

Short sales involve secondary market sales by the underwriters of a greater number of common shares than they are required to purchase in the offering.

"Covered" short sales are sales of common shares in an amount up to the number of common shares represented by the underwriters' over-allotment option.

"Naked" short sales are sales of common shares in an amount in excess of the number of common shares represented by the underwriters' over-allotment option.

Covering transactions involve purchases of common shares either pursuant to the over-allotment option or in the open market after the distribution has been completed in order to cover short positions.

To close a naked short position, the underwriters must purchase common shares in the open market after the distribution has been completed. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common shares in the open market after pricing that could adversely affect investors who purchase in the offering.

To close a covered short position, the underwriters must purchase common shares in the open market after the distribution has been completed or must exercise the over-allotment option. In determining the source of common shares to close the covered short position, the underwriters will consider, among other things, the price of common shares available for purchase in the open market as compared to the price at which they may purchase common shares through the over-allotment option.

Stabilizing transactions involve bids to purchase common shares so long as the stabilizing bids do not exceed a specified maximum.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased common shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover short position and stabilizing purchases, as well as other purchases by the underwriters for their own account, may have the effect of preventing or retarding a decline in the market price of the common shares. They may also cause the price of the common shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

#### Relationships with the Underwriters and Affiliates

An affiliate of Citigroup Global Markets Inc., one of the underwriters, is the seller of the portfolios of residential whole mortgage loans described above under "Summary Recent Developments Pending Portfolio Acquisitions." Our acquisition of these portfolios will be made

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pursuant to trade documentation that does not contain representations and warranties of the seller regarding the performance of the loans. We will acquire the loans on an "as is" and non-recourse basis against the seller but subject to limited representations and warranties and limited indemnification. As a result, we will not have a contractual right to seek indemnity or demand repurchase or substitution of the loans in these portfolios as a result of poor performance of the loans.

The underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

The underwriters have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which it may receive customary fees and reimbursement of expenses. Citibank, N.A., an affiliate of one of the underwriters, is the lender under one of the master repurchase agreements, in the aggregate principal amount of up to \$125 million, described above under "Summary Recent Developments Other." We have reached an understanding with Citibank, N.A. to increase the availability under such master repurchase agreement in order to provide financing for a portion of the purchase price of the portfolios, subject to legal documentation.

#### Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of common shares described in this prospectus supplement may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the common shares that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than  $\[ \in \]$  43,000,000; and (3) an annual net turnover of more than  $\[ \in \]$  50,000,000, as shown in its last annual or consolidated accounts:

to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representative for any such offer; or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of common shares described in this prospectus supplement located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the

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Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

We have not authorized and do not authorize the making of any offer of common shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the common shares as contemplated in this prospectus supplement. Accordingly, no purchaser of the common shares, other than the underwriters, is authorized to make any further offer of the common shares on behalf of us or the underwriters.

#### Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

#### **Notice to Prospective Investors in France**

Neither this prospectus supplement nor any other offering material relating to the shares described in this prospectus supplement has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the shares has been or will be:

released, issued, distributed or caused to be released, issued or distributed to the public in France; or

used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;

to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

#### **Notice to Prospective Investors in Switzerland**

This document, as well as any other material relating to the common shares which are the subject of the offering contemplated by this prospectus supplement, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The common shares will not be listed on the

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SWX Swiss Exchange and, therefore, the documents relating to the common shares, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SWX Swiss Exchange. The common shares are being offered in Switzerland by way of a private placement, i.e. to a small number of selected investors only, without any public offer and only to investors who do not purchase the common shares with the intention to distribute them to the public. The investors will be individually approached by us from time to time. This document, as well as any other material relating to the common shares, is personal and confidential and does not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

#### Notice to Prospective Investors in the Dubai International Financial Centre

This document related to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The common shares which are the subject of the offering contemplated by this prospectus supplement may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the common shares offered should conduct their own due diligence on the common shares. If you do not understand the contents of this document you should consult an authorized financial adviser.

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#### LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Sidley Austin LLP, New York, New York, and, with respect to matters of Maryland law, by Venable LLP, Baltimore, Maryland. In addition, the description of U.S. federal income tax consequences contained in the section entitled "U.S. Federal Income Tax Considerations" in the accompanying prospectus is based on the opinion of Sidley Austin LLP. The validity of the common shares sold in this offering will be passed upon for the underwriters by Sullivan & Cromwell LLP, New York, New York.

#### **EXPERTS**

The consolidated financial statements incorporated in this prospectus supplement by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2009 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any of these documents at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also read and copy any of these documents at the NYSE's office at 20 Broad Street, New York, New York 10005. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available over the Internet at the SEC's website at http://www.sec.gov. In addition, copies of our SEC filings are available free of charge through our website (www.pennymacmortgageinvestmenttrust.com) as soon as reasonably practicable after filing with the SEC. The information contained on our website is not part of, or incorporated by reference into, this prospectus supplement or the accompanying prospectus.

This prospectus supplement and the accompanying prospectus are only part of a registration statement on Form S-3 we have filed with the SEC under the Securities Act and therefore omit some of the information contained in the registration statement. We have also filed exhibits to the registration statement which are excluded from this prospectus supplement and the accompanying prospectus, and you should refer to the applicable exhibit for a complete description of any statement referring to any contract or other document. You may inspect or obtain a copy of the registration statement, including the exhibits, as described in the previous paragraph.

#### DOCUMENTS INCORPORATED BY REFERENCE

SEC rules allow us to incorporate by reference information into this prospectus supplement and the accompanying prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus supplement and the accompanying prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus supplement and before the date that this offering is terminated will automatically update and, where applicable, supersede any information contained in this prospectus supplement and the accompanying prospectus or incorporated by reference herein and therein. We incorporate by reference into this prospectus supplement and the accompanying prospectus the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

our Annual Report on Form 10-K for the fiscal year ended December 31, 2009;

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our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2010, June 30, 2010 and September 30, 2010;

our Definitive Proxy Statement on Schedule 14A filed on April 26, 2010;

our Current Reports on Form 8-K filed on February 22, 2010, March 5, 2010, June 18, 2010, November 19, 2010, December 15, 2010 and December 29, 2010 (as to Item 8.01 only); and

the description of our common shares included in our registration statement on Form 8-A filed on July 23, 2009.

All documents that we file (but not those that we furnish) pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this prospectus supplement and prior the termination of this offering shall be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus and will automatically update and supersede the information in this prospectus supplement, the accompanying prospectus and any previously filed documents.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus supplement is delivered, upon his or her written or oral request, a copy of any or all documents referred to above that have been or may be incorporated by reference into this prospectus supplement and the accompanying prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. Requests for those documents should be directed to us as follows: PennyMac Mortgage Investment Trust, 27001 Agoura Road, Calabasas, California 91301, Attn: Investor Relations, Telephone: (818) 224-7442.

**PROSPECTUS** 

# PennyMac Mortgage Investment Trust

# Common Shares Preferred Shares Warrants to Purchase Common Shares or Preferred Shares

We may offer, issue and sell from time to time, together or separately, the securities described in this prospectus, at an aggregate initial offering price which will not exceed \$500,000,000.

We will provide the specific terms of any securities we may offer in supplements to this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you invest. This prospectus may not be used to offer and sell any securities unless accompanied by a prospectus supplement describing the amount of and terms of the offering of those securities.

We may offer and sell these securities to or through one or more underwriters, dealers or agents, or directly to purchasers on a continuous or delayed basis. We reserve the sole right to accept, and together with any underwriters, dealers and agents, reserve the right to reject, in whole or in part, any proposed purchase of securities. The names of any underwriters, dealers or agents involved in the sale of any securities, the specific manner in which they may be offered and any applicable commissions or discounts will be set forth in the prospectus supplement covering the sales of those securities.

Our common shares of beneficial interest, or our common shares, par value \$0.01 per share, are listed on the New York Stock Exchange under the trading symbol "PMT." On September 13, 2010, the closing price of our common shares on the New York Stock Exchange was \$18.00.

Investing in our securities involved risks. You should carefully read and consider the risks described under the section entitled "Risk Factors" included in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, in prospectus supplements relating to specific offerings of securities and in other information that we file with the Securities and Exchange Commission before making a decision to invest in our securities.

We impose certain restrictions on the ownership and transfer of our common shares and our shares of beneficial interest. You should read the information under the section entitled "Description of Shares of Beneficial Interest Restrictions on Ownership and Transfer" in this prospectus for a description of these restrictions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 24, 2010

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You should rely only on the information contained in or incorporated by reference into this prospectus, any applicable prospectus supplement or any applicable free writing prospectus. We have not authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. This prospectus and any applicable prospectus supplement do not constitute an offer to sell, or a solicitation of an offer to purchase, any securities in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation in such jurisdiction. You should assume that the information appearing in this prospectus, any applicable prospectus supplement, any applicable free writing prospectus and the documents incorporated by reference herein or therein is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

#### ABOUT THIS PROSPECTUS

This prospectus is part of a "shelf" registration statement that we have filed with the Securities and Exchange Commission, or the SEC. By using a shelf registration statement, we may sell, at any time and from time to time, in one or more offerings, any combination of the securities described in this prospectus. The exhibits to our registration statement contain the full text of certain contracts and other important documents that we have summarized in this prospectus or that we may summarize in a prospectus supplement. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer, you should review the full text of these documents. The registration statement and the exhibits can be obtained from the SEC as indicated under the sections entitled "Where You Can Find More Information" and "Documents Incorporated By Reference."

This prospectus only provides you with a general description of the securities we may offer, which is not meant to be a complete description of each security. Each time we sell securities, we will provide a prospectus supplement that contains specific information about the terms of those securities. The prospectus supplement may also add, update or change information contained 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. You should read carefully both this prospectus and any prospectus supplement together with the additional information described under the sections entitled "Where You Can Find More Information" and "Documents Incorporated By Reference."

Unless otherwise indicated or the context requires otherwise, in this prospectus and any prospectus supplement hereto, references to "our company," "we," "us" and "our" mean PennyMac Mortgage Investment Trust and its consolidated subsidiaries, including PennyMac Operating Partnership, L.P., or our operating partnership.

#### PENNYMAC MORTGAGE INVESTMENT TRUST

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through distributions and secondarily through capital appreciation. We intend to achieve this objective primarily by investing in mortgage loans, a substantial portion of which may be distressed and acquired at discounts to their unpaid principal balances. We acquire these loans through direct acquisitions of mortgage loan portfolios from institutions such as banks, mortgage companies and insurance companies and direct acquisitions or participations in structured transactions. We seek to maximize the value of the mortgage loans that we acquire using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs, special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage delinquency, our objective is to effect timely acquisition and/or liquidation of the property securing the loan. We supplement these activities through participation in other mortgage-related activities, which are in various states of analysis, planning or implementation, including: (i) the acquisition and sale or securitization of mortgage loans in a conduit capacity between originators of mortgage loans and the mortgage-backed securities, or MBS, markets; (ii) the acquisition of REIT-eligible MBS; (iii) the underwriting and funding of mortgage loans sourced by mortgage loan brokers and other financial intermediaries; (iv) providing inventory financing of mortgage loans for smaller mortgage originators; (v) the acquisition of mortgage servicing rights; and (vi) the acquisition of distressed loans or residential real estate.

We are externally managed by an affiliate, PNMAC Capital Management, LLC, or PCM, pursuant to a management agreement. PCM is an investment adviser registered with the SEC that specializes in, and focuses on, residential mortgage loans. The loans we hold in our investment portfolio are serviced on our behalf by another affiliate, PennyMac Loan Services, LLC, pursuant to a loan servicing agreement.

We conduct substantially all of our operations, and make substantially all of our investments, through our operating partnership and its subsidiaries. A wholly-owned subsidiary of ours is the sole general partner of our operating partnership, and we are the sole limited partner of our operating partnership.

We intend to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, beginning with our taxable year ended on December 31, 2009.

Our principal executive offices are located at 27001 Agoura Road, Calabasas, California 91301. Our telephone number is (818) 224-7442. Our website is www.pennymacmortgageinvestmenttrust.com. The information contained on our website is not part of, or incorporated by reference into, this prospectus. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website.

#### RISK FACTORS

Investing in our securities involves risks. You should carefully read and consider the risks described under the section entitled "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which are incorporated by reference herein, as well as the other information contained in or incorporated by reference into this prospectus and in any applicable prospectus supplement, before making a decision to invest in our securities. Each of the risks described in these documents could materially and adversely affect our business, financial condition, results of operations and prospects, and could result in a partial or complete loss of your investment.

#### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This prospectus and the documents we incorporate herein by reference contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "approximately," "believe," "could," "project," "predict," "continue," "plan" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Examples of forward-looking statements include: (i) projections of our revenues, income, earnings per share, capital structure or other financial items; (ii) descriptions of our plans or objectives for future operations, products or services; (iii) forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and (iv) descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. There are a number of factors, many of which are beyond our control, that could cause actual results to differ significantly from our expectations.

You should not place undue reliance on any forward-looking statement, which speak only as of the date on which it is made. We expressly state that we have no current intention to update any forward-looking statement, whether as a result of new information, future events or otherwise, unless required by law.

Factors that could cause our actual results and performance to differ materially from historical results or those anticipated include, but are not limited to:

changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;

volatility in our industry, interest rates and spreads, the debt or equity markets, the general economy or the residential finance and real estate markets specifically, whether the result of market events or otherwise;

events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;

changes in general business, economic, market, employment, consumer confidence and spending habits and political conditions from those expected;

continued declines in residential real estate and significant changes in U.S. housing prices and/or activity in the U.S. housing market:

the availability of, and level of competition for, attractive risk-adjusted investment opportunities in residential mortgage loans and mortgage-related assets that satisfy our investment objective and investment strategies;

our success in winning bids to acquire loans;

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

changes in personnel and lack of availability of qualified personnel;

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our dependence on PCM, potential conflicts of interest with PCM and its affiliated entities, and the performance of such entities; the availability, terms and deployment of short-term and long-term capital; the adequacy of our cash reserves and working capital; our ability to match the interest rates and maturities of our assets with our financing; the timing and amount of cash flows, if any, from our investments; unanticipated increases in financing and other costs, including a rise in interest rates; the performance, financial condition and liquidity of borrowers; incomplete or inaccurate information provided by customers, or adverse changes in the financial condition of our customers and counterparties; increased rates of delinquency, default and/or decreased recovery rates on our investments; increased prepayments of the mortgages and other loans underlying our MBS and other investments; the degree to which our hedging strategies may or may not protect us from interest rate volatility; the effect of the accuracy of, or changes in the estimates we make about, uncertainties and contingencies when measuring and reporting upon our financial condition and results of operations; our failure to maintain appropriate internal controls over financial reporting; developments in the secondary markets for our mortgage loan products; legislative and regulatory changes that impact the mortgage loan industry or housing market; changes in regulations or the occurrence of other events that impact the business, operation or prospects of government-sponsored entities; changes in government support of homeownership;

changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs or the exclusions from registration as an investment company);

limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a REIT for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 and the ability of certain of our subsidiaries to qualify as REITs and certain of our subsidiaries to qualify as taxable REIT subsidiaries, or TRSs, for U.S. federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

estimates relating to our ability to make distributions to our shareholders in the future;

the effect of public opinion on our reputation; and

the occurrence of natural disasters or other events or circumstances that could impact our operations.

These factors and the other risk factors described in this prospectus and any prospectus supplement, including the documents incorporated by reference herein and therein, are not necessarily all of the important factors that could cause our actual results and performance to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could adversely affect our actual results and performance. Consequently, there can be no assurance that the results or performance anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us.

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#### USE OF PROCEEDS

Unless otherwise indicated in a prospectus supplement, we intend to use the net proceeds from the offering of securities under this prospectus for general corporate purposes, including funding our investment activity, repayment of indebtedness and working capital. Further details relating to the use of the net proceeds from the offering of securities under this prospectus will be set forth in the applicable prospectus supplement.

### RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED SHARE DISTRIBUTIONS

The following table sets forth our ratios of earnings to combined fixed charges and preferred share distributions for the periods shown:

	For the period August 4, 2009	
	(date operations commenced) through December 31, 2009	For the six months ended June 30, 2010
Ratio of earnings to combined fixed charges and preferred share distributions	(1)	(1)

We did not have any fixed charges in the periods presented, and we have no preferred shares of beneficial interest, or preferred shares, issued and outstanding. Therefore, we have no ratios to calculate for the periods presented.

#### DESCRIPTION OF SHARES OF BENEFICIAL INTEREST

The following summary of the material terms of our shares of beneficial interest does not purport to be complete and is subject to and qualified in its entirety by reference to the Maryland REIT Law, or the MRL, and to our amended and restated declaration of trust, or our declaration of trust, and our amended and restated bylaws, or our bylaws. We have incorporated by reference our declaration of trust and bylaws as exhibits to the registration statement of which this prospectus is a part.

### General

Our declaration of trust provides that we may issue up to 500,000,000 common shares, \$0.01 par value per share, and 100,000,000 preferred shares, \$0.01 par value per share. As of September 13, 2010, 16,832,345 common shares were issued and outstanding and no preferred shares were issued and outstanding. Our declaration of trust authorizes our board of trustees to amend our declaration of trust to increase or decrease the aggregate number of authorized shares or the number of shares of any class or series without shareholder approval.

Under Maryland law, shareholders are not personally liable for the obligations of a real estate investment trust solely as a result of their status as shareholders.

#### **Common Shares**

The common shares we may offer from time to time under this prospectus, when issued, will be duly authorized, fully paid and nonassessable. Subject to the preferential rights, if any, of holders of any other class or series of shares of beneficial interest and to the provisions of our declaration of trust regarding the restrictions on ownership and transfer of our shares, holders of our common shares are entitled to receive distributions on such common shares out of assets legally available therefor if, as and when authorized by our board of trustees and declared by us, and the holders of our common shares are entitled to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all of our known debts and liabilities.

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Subject to the provisions of our declaration of trust regarding the restrictions on ownership and transfer of our shares and except as may otherwise be specified in the terms of any class or series of common shares, each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of trustees, and, except as provided with respect to any other class or series of shares of beneficial interest, the holders of our common shares possess the exclusive voting power. There is no cumulative voting in the election of our trustees, which means that the shareholders entitled to cast a majority of the votes entitled to be cast in the election of trustees can elect all of the trustees then standing for election, and the remaining shareholders will not be able to elect any trustees.

Holders of common shares have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of our securities. Subject to the restrictions on ownership and transfer of our shares contained in our declaration of trust and the terms of any other class or series of common shares, all of our common shares have equal dividend, liquidation and other rights.

#### **Preferred Shares**

The preferred

terms will include:

nonassessable, and holders of preferred shares will not have any preemptive rights.

Our board of trustees may authorize the issuance of preferred shares in one or more series and may determine, with respect to any such series, the rights, preferences, privileges and restrictions of the preferred shares, including:

distribution rights;
conversion rights;
voting rights;
redemption rights and terms of redemptions; and
liquidation preferences.
shares we may offer from time to time under this prospectus, when issued, will be duly authorized, fully paid and

The issuance of preferred shares could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders. In addition, any preferred shares

that we issue could rank senior to our common shares with respect to the payment of distributions, in which case we could not pay any

distributions on our common shares until full distributions have been paid with respect to such preferred shares.

The rights, preferences, privileges and restrictions of each series of preferred shares will be fixed by articles supplementary relating to the series. We will describe the specific terms of the particular series of preferred shares in the prospectus supplement relating to that series, which

the designation and par value of the preferred shares;
the voting rights, if any, of the preferred shares;
the number of preferred shares offered, the liquidation preference per preferred share and the offering price of the preferred shares;
the distribution rate(s), period(s) and payment date(s) or method(s) of calculation applicable to the preferred shares;

whether distributions will be cumulative or non-cumulative and, if cumulative, the date(s) from which distributions on the preferred shares will cumulate;

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the procedures for any auction and remarketing for the preferred shares, if applicable;

the provision for a sinking fund, if any, for the preferred shares;

the provision for, and any restriction on, redemption, if applicable, of the preferred shares;

the provision for, and any restriction on, repurchase, if applicable, of the preferred shares;

the terms and provisions, if any, upon which the preferred shares will be convertible into common shares, including the conversion price (or manner or calculation) and conversion period;

the terms under which the rights of the preferred shares may be modified, if applicable;

the relative ranking and preferences of the preferred shares as to distribution rights and rights upon the liquidation, dissolution or winding up of our affairs;

any limitation on issuance of any other series of preferred shares, including any series of preferred shares ranking senior to or on parity with the series of preferred shares as to distribution rights and rights upon the liquidation, dissolution or winding up of our affairs;

any listing of the preferred shares on any securities exchange;

a discussion of any material U.S. federal income tax considerations applicable to the preferred shares;

information with respect to book-entry procedures, if applicable;

in addition to those restrictions described below, any other restrictions on the ownership and transfer of the preferred shares; and

any additional rights, preferences, privileges or restrictions of the preferred shares.

#### Power to Reclassify Our Unissued Shares of Beneficial Interest

Our declaration of trust authorizes our board of trustees to classify and reclassify any unissued common or preferred shares into other classes or series of shares of beneficial interest. Prior to the issuance of shares of each class or series, our board of trustees is required by Maryland law and by our declaration of trust to set, subject to the provisions of our declaration of trust regarding the restrictions on ownership and transfer of shares of beneficial interest, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Therefore, our board of trustees could authorize the issuance of a class or series of shares that has priority over our common shares as to voting rights, dividends or upon liquidation or with terms and conditions that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders. No preferred shares are presently outstanding.

Power to Increase or Decrease Authorized Shares of Beneficial Interest and Issue Additional Common Shares and Preferred Shares

We believe that the power of our board of trustees to amend our declaration of trust to increase or decrease the number of authorized shares of beneficial interest, to authorize us to issue additional authorized but unissued common shares or preferred shares and to classify unissued common shares or preferred shares and thereafter to issue such classified or reclassified shares of beneficial interest provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the additional common shares, will be available for issuance without further action by our shareholders,

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unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of trustees does not intend to do so, it could authorize us to issue a class or series of shares that could, depending upon the terms of the particular class or series, delay, defer or prevent a change in control or other transaction that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

### **Restrictions on Ownership and Transfer**

In order for us to qualify as a REIT under the Internal Revenue Code, our shares of beneficial interest must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made).

Our declaration of trust contains restrictions on the ownership and transfer of our common shares and other outstanding shares of beneficial interest. The relevant sections of our declaration of trust provide that, subject to the exceptions described below, no person or entity may beneficially own, or be deemed to own, by virtue of the applicable constructive ownership provisions of the Internal Revenue Code, more than 9.8% by vote or value, whichever is more restrictive, of our outstanding common shares, which we refer to as the common share ownership limit, or 9.8% by vote or value, whichever is more restrictive, of our outstanding shares of beneficial interest, which we refer to as the aggregate share ownership limit. We refer to the common share ownership limit and the aggregate share ownership limit collectively as the "share ownership limits."

The constructive ownership rules under the Internal Revenue Code are complex and may cause shares of beneficial interest owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9.8% by vote or value, whichever is more restrictive, of our outstanding common shares or 9.8% by vote or value, whichever is more restrictive, of our outstanding shares of beneficial interest (or the acquisition of an interest in an entity that owns, actually or constructively, our shares of beneficial interest), could, nevertheless, cause the acquirer, or another individual or entity, to own constructively in excess of 9.8% by vote or value, whichever is more restrictive, of our outstanding shares of beneficial interest and thereby violate the applicable share ownership limit.

Our board of trustees may, upon receipt of certain representations and agreements and in its sole discretion, exempt (prospectively or retroactively) any person, in whole or in part, from the share ownership limits or establish a different limit, or excepted holder limit, for a particular shareholder if the person's ownership in excess of the share ownership limits will not then or in the future result in our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the shareholder's interest is held during the last half of a taxable year) or otherwise cause us to fail to qualify as a REIT or result in our shares of beneficial interest being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution). As a condition of its exemption or creation of an excepted holder limit, our board of trustees may, but is not required to, require an opinion of counsel or Internal Revenue Service, or IRS, ruling satisfactory to our board of trustees in order to determine or ensure our status as a REIT.

In connection with granting an exemption from the share ownership limits, establishing an excepted holder limit or at any other time, our board of trustees may from time to time increase or decrease one or both of the share ownership limits for all other persons and entities; provided, however, that any decrease in a share ownership limit will not be effective for any person whose

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percentage ownership of our shares is in excess of such decreased limit until the person's percentage ownership of our shares equals or falls below the decreased limit (other than a decrease as a result of a retroactive change in existing law, in which case the decrease will be effective immediately), but any further acquisition of our shares in excess of such person's percentage ownership of our shares will be in violation of the applicable limits; and provided, further, that the share ownership limits may not be increased if, after giving effect to such increase, five or fewer individuals could beneficially own or constructively own in the aggregate more than 49.9% in value of the shares then outstanding. Prior to the modification of the share ownership limits, our board of trustees may, but is not required to, require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure our qualification as a REIT.

Our declaration of trust further prohibits:

any person from beneficially or constructively owning, applying certain attribution rules of the Internal Revenue Code, our shares of beneficial interest that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the shareholder's interest is held during the last half of a taxable year) or otherwise cause us to fail to qualify as a REIT; and

any person from transferring our shares of beneficial interest if such transfer would result in our shares of beneficial interest being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our shares of beneficial interest that will or may violate the share ownership limits or any of the other foregoing restrictions on ownership and transfer of our shares of beneficial interest will be required to immediately give written notice to us or, in the case of such a proposed or attempted transaction, give at least 15 days' prior written notice to us, and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. The share ownership limits and the other restrictions on ownership and transfer of our shares of beneficial interest will not apply if our board of trustees determines that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT or that compliance is no longer required in order for us to qualify as a REIT.

Pursuant to our declaration of trust, if any transfer of our shares of beneficial interest would result in our shares of beneficial interest being beneficially owned by fewer than 100 persons, such transfer will be void *ab initio* and the intended transferee will acquire no rights in such shares. In addition, if any purported transfer of our shares of beneficial interest or any other event would otherwise result in:

any person violating the share ownership limits or any applicable excepted holder limit established by our board of trustees; or

our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the shareholder's interest is held during the last half of a taxable year) or otherwise failing to qualify as a REIT,

then that number of shares (rounded up to the nearest whole share) that would cause us to violate such restrictions will be deemed to be transferred to, and held by, a charitable trust for the exclusive benefit of one or more charitable organizations selected by us, and the intended transfere will acquire no rights in such shares. The deemed transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in a deemed transfer to the charitable trust. A person who, but for the deemed transfer of the shares to the charitable trust, would have beneficially or constructively owned the shares so transferred is referred to as a "prohibited owner," which, if appropriate in the context, also means any person who would have been the record owner of the shares that the prohibited owner would have so owned.

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Any distribution made to the prohibited owner, prior to our discovery that the shares had been deemed to be transferred to the charitable trust as described above, must be repaid to the charitable trustee upon demand for distribution to the beneficiary by the charitable trust. If the transfer to the charitable trust as described above would not be effective, for any reason, to prevent violation of the applicable restriction on ownership and transfer contained in our declaration of trust, then our declaration of trust provides that the transfer of the shares will be void *ab initio*. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any distribution authorized but unpaid will be paid when due to the charitable trustee.

Shares of beneficial interest transferred to a charitable trust are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price paid per share in the transaction that resulted in such transfer to the charitable trust (or, if the event that resulted in the transfer to the charitable trust did not involve a purchase of such shares of beneficial interest at market price, the last sale price reported on the New York Stock Exchange (or other applicable exchange) on the trading day immediately preceding the day of the event that resulted in the transfer of such shares of beneficial interest to the charitable trust) and (ii) the market price on the date we, or our designee, accepts such offer. We have the right to accept such offer until the charitable trustee has sold the shares held in the charitable trust as discussed below. Upon a sale to us, the interest of the charitable beneficiary in the shares sold terminates, the charitable trustee must distribute the net proceeds of the sale to the prohibited owner and any distributions held by the charitable trustee with respect to such shares of beneficial interest must be distributed to the charitable beneficiary.

If we do not buy the shares, the charitable trustee must, within 20 days of receiving notice from us of a transfer of shares to the charitable trust, sell the shares to a person or entity designated by the charitable trustee who could own the shares without violating the share ownership limits or the other restrictions on ownership and transfer of our shares described above. After that, the charitable trustee must distribute to the prohibited owner an amount equal to the lesser of (i) the price paid by the prohibited owner for the shares in the transaction that resulted in the transfer to the charitable trust (or, if the event that resulted in the transfer to the charitable trust did not involve a purchase of such shares at market price, the last sale price reported on the New York Stock Exchange (or other applicable exchange) on the trading day immediately preceding the day of the event which resulted in the transfer to the charitable trust) and (ii) the sales proceeds (net of commissions and other expenses of sale) received by the charitable trust for the shares. Any net sales proceeds in excess of the amount payable to the prohibited owner will be immediately paid to the charitable beneficiary, together with any distributions thereon. In addition, if, prior to discovery by us that shares of beneficial interest have been transferred to a charitable trust, such shares of beneficial interest are sold by a prohibited owner, then such shares will be deemed to have been sold on behalf of the charitable trust and, to the extent that the prohibited owner received an amount for or in respect of such shares that exceeds the amount that such prohibited owner was entitled to receive, such excess amount must be paid to the charitable trustee upon demand. The prohibited owner has no rights in the shares held by the charitable trust.

The charitable trustee will be designated by us and will be unaffiliated with us and with any prohibited owner. Prior to the sale of any shares by the charitable trust, the charitable trustee will receive, in trust for the charitable beneficiary, all distributions made by us with respect to such shares and may also exercise all voting rights with respect to such shares.

Subject to Maryland law, effective as of the date that the shares have been transferred to the charitable trust, the charitable trustee will have the authority, at the charitable trustee's sole discretion:

to rescind as void any vote cast by a prohibited owner prior to our discovery that the shares have been transferred to the charitable trust; and

to recast the vote in accordance with the desires of the charitable trustee acting for the benefit of the beneficiary of the

However, if we have already taken irreversible action, then the charitable trustee may not rescind and recast the vote.

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If our board of trustees determines in good faith that a proposed transfer would violate the restrictions on ownership and transfer of our shares of beneficial interest set forth in our declaration of trust, our board of trustees may take such action as it deems advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, causing us to redeem shares of beneficial interest, refusing to give effect to the transfer on our books or instituting proceedings to enjoin the transfer.