Great Ajax Corp.
Form POS AM
April 13, 2016
TABLE OF CONTENTS
As filed with the Securities and Exchange Commission on April 12, 2016
Registration No. 333-203048

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST EFFECTIVE AMENDMENT
NO. 2
TO FORM S-11 ON FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

GREAT AJAX CORP.
(Exact Name of Registrant as Specified in its Governing Instruments)

Maryland	47-1271842
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

9400 SW Beaverton-Hillsdale Hwy, Suite 131
Beaverton, OR 97005
503-505-5670
(Address, Including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

Lawrence Mendelsohn
Chairman and Chief Executive Officer
9400 SW Beaverton-Hillsdale Hwy, Suite 131
Beaverton, OR 97005
503-505-5670
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)
Copies to:
Anna T. Pinedo, Esq.
Brian D. Hirshberg, Esq.
Morrison & Foerster LLP
250 West 55th Street
New York, NY 10019
212-468-8000
Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.
If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.
If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest

reinvestment plans, check the following box.

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

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

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

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

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

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

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

TABLE OF CONTENTS

EXPLANATORY NOTE

On March 27, 2015, the registrant filed with the Securities and Exchange Commission (the "SEC") a registration statement on Form S-11 (File No. 333-203048), which was subsequently amended by Amendment No. 1 to Form S-11, filed on April 13, 2015 and declared effective on April 17, 2015 (the "Form S-11"). The Form S-11 was filed to register the resale by the selling stockholders named in the prospectus included in the Form S-11 of up to 10,000,740 shares of the registrant's common stock, par value $0.01 per share.

A Post-Effective Amendment No. 1 on Form S-3 was filed by the registrant on February 12, 2016 converting the Form S-11 into a registration statement on Form S-3. This Post-Effective Amendment No. 2 on Form S-3 is being filed by the registrant to update tax-related disclosures. All filing fees payable in connection with the registration of the shares covered by this Post-Effective Amendment No. 2 were paid by the registrant at the time of the initial filing of the Form S-11.

TABLE OF CONTENTS

The information in this preliminary prospectus is not complete and may be changed. The securities in this preliminary prospectus cannot be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale thereof is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED APRIL 12, 2016

10,000,740 Shares of Common Stock

This prospectus relates solely to the resale of up to an aggregate of 10,000,740 shares of our common stock by the selling stockholders named in this prospectus. We will not receive any of the proceeds from the sale of those shares. We have agreed to pay all expenses relating to registration of the shares. The selling stockholders will pay any brokerage commissions or other similar charges incurred for the sale of their shares.

The selling stockholders may offer the shares from time to time as they may determine through public or private transactions or through other means described under “Plan of Distribution” of prevailing market prices, at prices different than prevailing market prices or at privately negotiated prices.

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol “AJX.” On April 11, 2016, the last reported sale price of our common stock was $11.85.

To assist us in qualifying as a real estate investment trust, or REIT, among other purposes, ownership of our common stock by any person is generally limited to 9.8% of our outstanding common stock. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See “Description of Capital Stock — Restrictions on Ownership and Transfer.”

We are an “emerging growth company” under the Jumpstart Our Business Startups Act and are subject to reduced public company reporting requirements.

Investing in our common stock involves risks. See “Risk Factors” beginning on page 3, as well as the “Risk Factors” incorporated by reference herein from our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other reports and information that we file with the Securities and Exchange Commission.

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

The date of this prospectus is April 12, 2016

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus and any supplement hereto. We and the selling stockholders have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus and any supplement hereto. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling stockholders are not making an offer to sell, or a solicitation of an offer to buy, any securities in any jurisdiction where it is unlawful to do so. You should assume that the information in this prospectus and any supplement hereto is accurate as of the respective dates of such documents or as of the date or dates that are specified herein or therein. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS	ii
FORWARD-LOOKING STATEMENTS	ii
OUR COMPANY	1
RISK FACTORS	3
USE OF PROCEEDS	3
SELLING STOCKHOLDERS	4
PLAN OF DISTRIBUTION	9
DESCRIPTION OF CAPITAL STOCK	11
CERTAIN PROVISIONS OF MARYLAND LAW AND OUR CHARTER AND BYLAWS	16
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	22
LEGAL MATTERS	48
EXPERTS	48
WHERE YOU CAN FIND MORE INFORMATION	48
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	49

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

This prospectus is part of a resale shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, using a "shelf" registration process for the delayed offering and sale of securities pursuant to Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. This prospectus covers the resale of our common stock by the selling stockholders named in this prospectus, any prospectus or supplement hereto and their pledgees, donees, assignees and other successors in interest. This prospectus only provides you with a general description of our common stock the selling stockholders may offer. The selling stockholders may offer and sell some or all of their common stock in one or more transactions from time to time. You should read both this prospectus and any prospectus supplement together with the information incorporated or deemed to be incorporated by reference herein as described under the headings "Where You Can Find More Information" and "Incorporation of Certain Documents by Reference" in this prospectus. In this prospectus, unless the context indicates otherwise, references to "Great Ajax," "we," "the company," "our" and "us" refer to the activities of and the assets and liabilities of the business and operations of Great Ajax Corp., and references to "operating partnership" refers to Great Ajax Operating Partnership L.P., a Delaware limited partnership.

To the extent any inconsistency or conflict exists between the information included in this prospectus and the information incorporated by reference in this prospectus or included or incorporated by reference in a prospectus supplement, the information included in a prospectus supplement or incorporated by reference in this prospectus or a prospectus supplement updates and supersedes the information in this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus and any accompanying prospectus supplement, including the documents incorporated by reference into this prospectus and any accompanying prospectus supplement, contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "p "should," "will" and "would" or the negatives of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

- our ability to implement our business strategy;
- difficulties in identifying re-performing and non-performing loans and properties to acquire;
- the impact of changes to the supply of, value of and the returns on re-performing and non-performing loans;
- our ability to convert non-performing loans into performing loans, or to modify or otherwise resolve such loans;
- our ability to convert non-performing loans to properties that can generate attractive returns either through sale or rental;
-

our ability to compete with our competitors;

- our ability to control our costs;

TABLE OF CONTENTS

- the impact of changes in interest rates and the market value of the collateral underlying our re-performing and non-performing loan portfolios or of our other real estate assets;
- our ability to obtain financing arrangements on favorable terms, or at all;
- our ability to retain our engagement of Thetis Asset Management LLC (our “Manager”);
- the failure of Gregory Funding LLC (the “Servicer” or “Gregory”) to perform its obligations under the servicing agreement;
- general volatility of the capital markets;
- the impact of adverse real estate, mortgage or housing markets and changes in the general economy;
- changes in our business strategy;
- our failure to qualify or maintain qualification as a REIT;
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act;
- our failure to maintain our exemption from registration under the Investment Company Act; and
- the impact of adverse legislative or regulatory tax changes.

The forward-looking statements should be read in light of these factors and the factors identified in the “Risk Factors” incorporated by reference into this prospectus and any accompanying prospectus supplement, from our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other reports and information that we file with the SEC from time to time.

TABLE OF CONTENTS

OUR COMPANY

We are a Maryland corporation that focuses primarily on acquiring, investing in and managing a portfolio of re-performing and non-performing mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. We also invest in loans secured by multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The multi-family and commercial mixed-use properties generally will have loan values of up to approximately $5 million. We refer to these as "smaller commercial properties."

Our primary strategy is to acquire, own and manage re-performing and non-performing mortgage loans. We seek to acquire loans at significant discounts to our estimates of the value of the underlying real estate and of the unpaid principal balance, or UPB, of the loan. Unlike other loan acquirers, who often rely on pooled estimates in analyzing and pricing portfolios, our Manager uses proprietary models and data developed by its affiliates to evaluate individual assets and to help determine cities, neighborhoods and properties that it believes will experience home price appreciation. These proprietary analytics have inputs for economic and demographic data that include changes in unemployment rates, median household incomes, housing starts, crime rates, education, electoral participation and other variables that we believe closely correlate to property values. The proprietary models predict probabilistic future cash flows for each loan we seek to acquire. Factors affecting our cash flow projections include resolution method, resolution timeline, foreclosure costs, rehabilitation costs and eviction costs. The database for these proprietary models contains foreclosure timelines on an individual county basis and, in some instances, also on an individual judge basis. We believe that these proprietary models permit us to acquire loans at prices we and the Manager believe represent a discount to UPB and current property values in non-auction purchases.

We generally intend to securitize our mortgage loans and retain subordinated securities from our securitizations. We also hold "real estate-owned" properties, or REO, acquired upon the foreclosure or other settlement of our owned non-performing loans, as well as through outright purchases. We anticipate our REO will consist principally of single-family homes, although we also may own smaller commercial properties. Our resolution methods are tailored to each loan, based on our Servicer's detailed analytics, and include, among others, loan modification, forbearance agreements, foreclosure, short sale and deed-in-lieu of foreclosure. In the event of foreclosure, our Manager determines, in part based on the information obtained from the Servicer regarding historical experience, whether to seek to sell any REO asset, including offering mortgage financing to the purchaser, or to hold the REO as a rental property. We may conduct some of these activities through a taxable REIT subsidiary, or TRS. As part of our integrated approach, the Servicer focuses on understanding each borrower's situation and working closely with the borrower to determine the most appropriate resolution for both parties. We believe that purchasing re-performing and non-performing mortgage loans at significant discounts to UPB and underlying property values, as well as working, through Gregory Funding LLC, an affiliated entity, to support continuing or new payments by borrowers, will allow us to achieve our targeted returns. However, if actual results differ from our assumptions, particularly if the value of the underlying properties were to decrease significantly, we may not achieve our targeted returns.

We are externally managed by Thetis Asset Management LLC, an affiliated entity. We own a 19.8% interest in the Manager. Our mortgage loans and other real estate assets are serviced by Gregory Funding LLC, an affiliated entity. We conduct substantially all of our business through our operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership, and its subsidiaries. We, through a wholly owned subsidiary, are the general partner of our operating partnership. GA-TRS LLC, or Thetis TRS, is a wholly owned subsidiary of the operating partnership that owns the equity interest in the Manager. We elected to treat Thetis TRS as a TRS under the Internal Revenue Code of 1986, as amended, or the Code. In September 2014, we formed Great Ajax Funding LLC, a wholly owned subsidiary of the operating partnership, to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts we may form for additional securitizations. In November 2014, we formed AJX Mortgage Trust I, a wholly owned subsidiary of the operating partnership, in connection with a repurchase agreement. On February 1, 2015, we formed GAJX Real Estate LLC, as a wholly owned subsidiary of the operating partnership, to own, maintain, improve and sell REO purchased by us. We have elected to treat GAJX Real Estate LLC as a TRS under the Code.

We have elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT depends

1

TABLE OF CONTENTS

upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and that our current intended manner of operation enables us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes.

Our principal offices are located at 9400 SW Beaverton-Hillsdale Hwy, Suite 131, Beaverton, OR 97005. Our telephone number is 503-505-5670. Our web address is www.great-ajax.com. The information on our website does not constitute a part of this prospectus.

TABLE OF CONTENTS

RISK FACTORS

Investment in any shares of our common stock offered pursuant to this prospectus involves substantial risks. Before acquiring shares of our common stock from a selling shareholder, you should carefully consider the risk factors incorporated by reference to our most recent Annual Report on Form 10-K, our subsequent Quarterly Reports on Form 10-Q and the other information contained in this prospectus, as updated by our subsequent filings under the Exchange Act, and the risk factors and other information contained in any accompanying prospectus supplement. The occurrence of any of these risks might cause you to lose all or part of your investment in the offered shares. Please also refer to the section entitled "Forward-Looking Statements" in this prospectus.

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds from the sale of the shares of common stock offered by this prospectus. We will not receive any proceeds from the sale of the shares of common stock offered by this prospectus.

TABLE OF CONTENTS

SELLING STOCKHOLDERS

The following table sets forth information, as of April 10, 2015, with respect to the selling stockholders named in the table, shares of our common stock beneficially owned by the selling stockholders and shares that the selling stockholders propose to offer pursuant to this prospectus. In accordance with SEC rules, each selling stockholder's beneficial ownership includes:

- all shares over which the selling stockholder has or shares voting or dispositive power; and
- all shares the selling stockholder has the right to acquire within 60 days (such as upon exercise of options that are currently vested or that are scheduled to vest within 60 days or warrants that are immediately exercisable or exercisable within 60 days). The shares issuable under those options or warrants are treated as if were outstanding for computing the percentage ownership of the person holding those options or warrants but are not treated as if they were outstanding for purposes of computing the percentage ownership of any other person.

The shares of our common stock offered by the selling stockholders pursuant to this prospectus were originally issued and sold by us in connection with private placements in July, August and December of 2014.

Percentage ownership calculations are based on 15,942,638 shares of our common stock outstanding as of April 12, 2016 (assuming redemption of 624,106 units of our operating partnership, or OP Units, on a 1-for-1 basis into shares of our common stock). To our knowledge, except as indicated in the footnotes to the following table, entities identified in the table below have the sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

Up to 10,000,740 shares of our common stock are being offered by this prospectus, all of which are being offered for resale for the respective accounts of the selling stockholders. The selling stockholders may, from time to time, offer and sell pursuant to this prospectus any or all of the shares of our common stock being registered. When we refer to "selling stockholders" in this prospectus, we mean those persons specifically identified in the table below, as well as the permitted transferees, pledgees, donees, assignees, successors and others who later come to hold any of the selling stockholders' shares of our common stock other than through a public sale.

Because the selling stockholders may offer all, some or none of the shares of our common stock pursuant to this prospectus, no definitive estimate can be given as to the number of shares that will be held by the selling stockholders after completion of this offering. The following table has been prepared assuming that the selling stockholders sell all of the shares of our common stock beneficially owned by them that are registered by us and do not acquire any additional shares of our common stock during this offering. In addition, the selling stockholders may have sold, transferred or otherwise disposed of, or may sell, transfer or otherwise dispose of, at any time or times, shares of our common stock described below after the date for which the information set forth in the table below is provided. Information concerning the selling stockholders may change from time to time, and any changed information may be set forth in prospectus supplements or post-effective amendments, as may be appropriate.

No selling stockholder since our inception has had any position, office or other material relationship with us or any of our affiliates other than Gregory Funding LLC and Thetis Asset Management LLC. See notes (10) and (19) below.

TABLE OF CONTENTS

Name of Selling Stockholder	Beneficial Ownership Prior to this Offering		Shares Offered Pursuant to this Prospectus	Beneficial Ownership After this Offering	
	Shares Owned	Percentage		Shares Owned	Percentage
Ithan Creek Master Investors (Cayman) LP(1)	2,295,363	14.40%	2,295,363	—	—%
Flexpoint Great Ajax Holdings, LLC(2)	1,837,500	11.53%	1,837,500	—	—%
TIG Securitized Asset Master Fund, L.P.(3)	1,333,333	8.36%	1,333,333	—	—%
BHCO Master, Ltd.(4)	666,667	4.18%	666,667	—	—%
Republic Indemnity Company of America(5)	504,092	3.16%	504,092	—	—%
Great American Life Insurance Company(6)	437,592	2.74%	437,592	—	—%
Trishield Capital Management LLC(7)	400,000	2.50%	400,000	—	—%
MMF Moore ET Investments, LP(8)	333,333	2.09%	333,333	—	—%
AllianceBernstein Financial Services Opportunities Master Fund L.P.(9)	273,333	1.71%	273,333	—	—%
Gregory Funding LLC(10)	274,667	1.72%	274,667	—	—%
Pine River Fixed Income Master Fund Ltd.(11)	237,764	1.49%	237,764	—	—%
Calm Waters Partnership(13)	200,000	1.25%	200,000	—	—%
BP Master Fund, LP(14)	200,000	1.25%	200,000	—	—%
Pine River Master Fund Ltd.(15)	158,509	1.00%	158,509	—	—%
Edward & Sandra Meyer Foundation, Inc.(16)	133,332	*	133,332	—	—%
Fore Multi Strategy Master Fund, Ltd.(12)	110,078	*	110,078	—	—%
Ocean Road Investment Partners, LP(18)	100,000	*	100,000	—	—%
Thetis Asset Management LLC(19)	98,501	*	169,088	—	—%
Continental General Insurance Company(20)	66,502	*	66,502	—	—%
National Interstate Insurance Company(21)	66,502	*	66,502	—	—%
United Teacher Associates Insurance Company(22)	66,502	*	66,502	—	—%
HRS Investment Holdings LLC(17)	63,200	*	63,200	—	—%
Pine River Deerwood Fund Ltd.(23)	28,394	*	28,394	—	—%
Column Park Master Fund Ltd.(24)	16,667	*	16,667	—	—%
Gorham Fundamental Value Fund, Ltd.(26)	12,000	*	12,000	—	—%
Brent H. & Maureen B. Hodges(27)	6,000	*	6,000	—	—%
Kevin B. and Anne Marie Roth Revocable Trust(28)	5,000	*	5,000	—	—%
Fairway Fund Limited(25)	4,922	*	4,922	—	—%
Patravi Capital LLC(29)	400	*	400	—	—%

*
Less than 1%

(1)
Includes 624,106 OP units which are redeemable for cash (or at our election shares of our common stock). Wellington Management Company LLP, an investment adviser registered under the Investment Advisers Act of 1940, as amended, is the investment adviser to Ithan Creek Master Investors (Cayman) L.P. Wellington Management Company LLP is an indirect subsidiary of Wellington Management Group LLP. Wellington Management Company LLP and Wellington Management Group LLP may be deemed to beneficially own the shares indicated in the table, all of which are held of record by Ithan Creek Master Investors (Cayman) L.P., and have shared voting power and dispositive power with

respect to the shares owned by Ithan Creek Master Investors (Cayman) L.P. The business address of Ithan Creek Master Investors (Cayman) L.P., Wellington Management Company LLP and Wellington Management Group LLP is 280 Congress Street, Boston, Massachusetts 02210. Wholly owned subsidiaries of Ithan Creek Master Investors (Cayman) L.P. also own interests in our Manager and Great Ajax-FS LLC, the parent of the Servicer.

(2)
The business address of Flexpoint Great Ajax Holdings LLC is c/o Flexpoint Ford, LLC at 676 N. Michigan Avenue, Suite 3300, Chicago, IL 60611. Flexpoint Great Ajax Holdings LLC also owns interests in our Manager and Great Ajax-FS LLC, the parent of the Servicer.

(3)
TIG Advisors, LLC is an investment adviser registered under the Investment Advisers Act of 1940, as amended. The shares indicated in the table are held of record by investment advisory clients of TIG Advisors, LLC, including TIG Securitized Asset Master Fund, L.P. TIG Advisors, LLC may be deemed to beneficially own the shares indicated in the table, and have shared voting power and dispositive power with respect to such shares. The business address of TIG Advisors, LLC is 520 Madison, 26th Floor, New York, New York 10022.

(4)
The business address of BHCO Master, Ltd. (“BHCO”) is 545 Madison Avenue, 10th Floor, New York, New York 10022. Michael Thomson, the managing partner of BHCO, exercises voting and investment discretion over the shares.

(5)
The business address of Republic Indemnity Company of America is 201 East 4th Street, Cincinnati, Ohio 45202. Great American Advisors, Inc., a registered broker-dealer, is a subsidiary of American Financial Group, Inc. (“AFG”) and Republic Indemnity Company of America is a wholly-owned subsidiary of AFG. Republic Indemnity Company of America purchased its shares in the ordinary course of business and did not at the time of the purchase have any agreements or understandings, directly or indirectly, to distribute the shares. The board of directors of American Financial Group, Inc., consisting of 11 members, exercises voting and investment control over the shares held by Republic Indemnity Company of America.

(6)
The business address of Great American Life Insurance Company (“Great American”) is 201 East Fourth Street, Cincinnati, Ohio 45202. The board of directors of Great American, consisting of five members, has voting and investment power over the shares. Great American is an affiliate of Great American Advisors, Inc., a registered broker-dealer, and purchased its shares in the ordinary course of business and did not at the time of the purchase have any agreements or understandings, directly or indirectly, to distribute the shares.

(7)
The business address of Trishield Capital Management is 540 Madison Avenue, 14th Floor, New York, New York 10022. The shares beneficially owned by Trishield Capital Management LLC are held by Trishield Special Situation Master Fund Ltd. (“Trishield”). Robert L. Harteveldt and Alan J. Buick Jr. exercise voting and investment discretion over the shares through Trishield Capital Management LLC, the investment advisor of Trishield.

(8)
The business address of MMF Moore ET Investments, LP is c/o Moore Capital Management, LP, 1251 Avenue of Americas, New York, New York 10020. Moore Capital Management, LP is the discretionary investment manager of MMF Moore ET Investments, LP and has the power to exercise voting and dispositive powers over the shares. Louis M. Bacon controls Moore Capital Management, LP.

(9)

The business address of AllianceBernstein Financial Services Opportunities Master Fund L.P. is 1345 Avenue of the Americas, New York, New York 10105. AllianceBernstein L.P. is the general partner and investment manager of AllianceBernstein Financial Opportunities Master Fund L.P. and has voting and investment power over the shares. Mike Howard, is the Senior Vice President of AllianceBernstein L.P. However, Mike Howard and AllianceBernstein L.P. disclaim beneficial ownership of any of the shares owned by AllianceBernstein Financial Opportunities Master Fund L.P., other than to the extent of his or its pecuniary interest therein.

(10)
The business address of Gregory Funding LLC is 9400 SW Beaverton Hillsdale Hwy, Beaverton, Oregon 97005. Gregory Funding LLC is our Servicer.

TABLE OF CONTENTS

(11)
The business address of Pine River Fixed Income Master Fund, Ltd. is c/o Pine River Capital Management L.P., 301 Carlson Parkway, Suite 330, Minnetonka, Minnesota 55305. Pine River Capital Management L.P. (“Pine River”) is the investment manager of Pine River Fixed Income Master Fund Ltd. and has voting and investment power over the shares. Brian Taylor is the managing member of Pine River Capital Management LLC, an entity which is the general partner of Pine River. However, Mr. Taylor, Pine River and Pine River Capital Management LLC disclaim beneficial ownership of the shares owned by Pine River Fixed Income Master Fund Ltd., other than to the extent of his or its pecuniary interest therein.

(12)
The business address of Fore Multi Strategy Master Fund, Ltd. is 510 Madison Avenue, 11th Floor, New York, New York 10022. As investment manager under an investment management agreement, Fore Research & Management, LP may exercise dispositive and voting power with respect to the shares owned by Fore Multi Strategy Master Fund, Ltd. Matthew Li, LLC is the general partner of Fore Research & Management, LP and Yanxiu Li is the managing member of Matthew Li, LLC. Each of Fore Research & Management, LP, Mr. Li and Matthew Li, LLC disclaim beneficial ownership of the shares owned by Fore Multi Strategy Master Fund, Ltd.

(13)
The business address of Calm Waters Partnership is 115 South 84th Street, Suite 200, Milwaukee, Wisconsin 53214. Richard S. Strong, managing partner of Calm Waters Partnership has voting and investment power over the shares.

(14)
The business address of BP Master Fund, LP is 717 Fifth Avenue, Floor 12A, New York, New York 10022. Orin S. Kramer has voting and investment power over the shares.

(15)
The business address of Pine River Master Fund Ltd. is c/o Pine River Capital Management L.P., 301 Carlson Parkway, Suite 330, Minnetonka, Minnesota 55305. Pine River is the investment manager of Pine River Master Fund Ltd. and has voting and investment power over the shares. Brian Taylor is the managing member of Pine River Capital Management LLC, an entity which is the general partner of Pine River. However, Mr. Taylor, Pine River and Pine River Capital Management LLC disclaim beneficial ownership of the shares owned by Pine River Master Fund Ltd., other than to the extent of his or its pecuniary interest therein.

(16)
The business address of Edward & Sandra Meyer Foundation, Inc. is 767 Fifth Avenue, 19th Floor, New York, New York 10153. Edward H. Meyer, president of Edward & Sandra Meyer Foundation, Inc. exercises voting and investment discretion over the shares.

(17)
The business address of HRS Investment Holdings LLC is 600 Madison Avenue, 26th Floor, New York, New York 10022. HRS Investment Holdings LLC is indirectly controlled by Joshua Harris, who is deemed to be an affiliate of Apollo Global Securities, LLC, which is a registered broker-dealer. HRS Investment Holdings LLC purchased its shares in the ordinary course of business and did not at the time of the purchase have any agreements or understandings, directly or indirectly, to distribute the shares.

(18)
The business address of Ocean Road Investment Partners, LP is 767 Fifth Avenue, 18th Floor, New York, New York 10153. Edward H. Meyer, chief executive officer of Ocean Road Advisors, Inc., general partner of Ocean Road Investment Partners, LP, exercises voting and investment discretion over the shares.

(19)
The business address of Thetis Asset Management LLC, manager of the Company, is 9400 SW Beaverton Hillsdale Hwy Suite #131, Beaverton, Oregon 97005.

(20)
The business address of Continental General Insurance Company is 301 East Fourth Street, Cincinnati, Ohio 45202. Continental General Insurance Company is an affiliate of Great American Advisors, Inc., a registered broker-dealer and purchased its shares in the ordinary course of business and did not at the time of the purchase have any agreements or understandings, directly or indirectly, to distribute the shares. The board of directors of Continental General Insurance Company, consisting of five members, has voting and investment power over the shares.

(21)
The business address of National Interstate Insurance Company is 3250 Interstate Drive, Richfield, Ohio 44286. Great American Advisors, Inc., a registered broker-dealer, is a subsidiary of American

TABLE OF CONTENTS

Financial Group ("AFG"). AFG is the majority shareholder of National Interstate Insurance Company. National Interstate Insurance Company is a wholly-owned subsidiary of National Interstate Corporation. National Interstate Insurance Company purchased its shares in the ordinary course of business and did not at the time of the purchase have any agreements or understandings, directly or indirectly, to distribute the shares. The board of directors of National Interstate Corporation, consisting of 10 members, exercise voting and investment control over the shares held by National Interstate Insurance Company.

(22)
The business address of United Teacher Associates Insurance Company is 301 East Fourth Street, Cincinnati, Ohio 45202. United Teacher Associates Insurance Company is an affiliate of Great American Advisors, Inc., a registered broker-dealer and purchased its shares in the ordinary course of business and did not at the time of the purchase have any agreements or understandings, directly or indirectly, to distribute the shares. The board of directors of United Teacher Associates Insurance Company, consisting of five members, has voting and investment power over the shares.

(23)
The business address of Pine River Deerwood Fund Ltd. c/o Pine River Capital Management L.P., 301 Carlson Parkway, Suite 330, Minnetonka, Minnesota 55305. Pine River Capital Management L.P. ("Pine River") is the investment manager of Pine River Deerwood Fund Ltd. and has voting and investment power over the shares. Brian Taylor is the managing member of Pine River Capital Management LLC, an entity which is the general partner of Pine River. However, Mr. Taylor, Pine River and Pine River Capital Management LLC disclaim beneficial ownership of the shares owned by Pine River Deerwood Fund Ltd., other than to the extent of his or its pecuniary interest therein.

(24)
The business address of Column Park Master Fund Ltd. c/o Column Park Asset Management, LP, 3 Columbus Circle, Suite 1604, New York, New York 10019. Brian Nold, Daniel Shatz and Andrew Brenner has voting and investment power over the shares.

(25)
The business address of Fairway Fund Limited is 510 Madison Avenue, 11th Floor, New York, New York 10022. As investment manager under an investment management agreement, Fore Research & Management, LP may exercise dispositive and voting power with respect to the shares owned by Fairway Fund Limited. Matthew Li, LLC is the general partner of Fore Research & Management, LP and Yanxiu Li is the managing member of Matthew Li, LLC. Each of Fore Research & Management, LP, Mr. Li and Matthew Li, LLC disclaim beneficial ownership of the shares owned by Fairway Fund Limited.

(26)
The business address of Gorham Fundamental Value Fund, Ltd. is 570 Lexington Avenue, 22nd Floor, New York, New York 10022.

(27)
The business address of Brent H. & Maureen B. Hodges is 3049 N. Quincy Street, Arlington, Virginia 22207.

(28)
The business address of Kevin B. and Anne Marie Roth Revocable Trust is 19745 Brampton Court Brookfield, Wisconsin 53045.

(29)
The business address of Patravi Capital LLC is 119 Washington Avenue, Suite 605, Miami Beach, Florida 33139. Jason Kaplan, the managing member of Patravi Capital LLC, has voting and investment power over the shares.

8

TABLE OF CONTENTS

PLAN OF DISTRIBUTION

The selling stockholders may sell the shares being offered from time to time in one or more transactions:

- on the NYSE or otherwise;
- in the over-the-counter market;
- in negotiated transactions;
- through broker-dealers, who may act as agents or principals;
- through one or more underwriters on a firm commitment or best efforts basis;
- through the writing of options on shares, whether the options are listed on an options exchange or otherwise; or
- a combination of such methods of sale.

The selling stockholders may sell the shares at market prices prevailing at the time of sale, at prices related to those market prices or at negotiated prices. The selling stockholders also may sell the shares pursuant to Rule 144 adopted under the Securities Act, as permitted by that rule. The selling stockholders may effect transactions by selling shares directly to purchasers or to or through broker-dealers. The broker-dealers may act as agents or principals. The broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or the purchasers of the shares. The compensation of any particular broker-dealer may be in excess of customary commissions. Because the selling stockholders and broker-dealers that participate with the selling stockholders in the distribution of shares may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, the selling stockholders will be subject to the prospectus delivery requirements of the Securities Act. Any commissions received by them and any profit on the resale of shares may be deemed to be underwriting compensation.

The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities.

The shares will be sold through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states the shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

In addition, each selling stockholder will be subject to applicable provisions of the Exchange Act and the associated rules and regulations under the Exchange Act, including Regulation M, which provisions may limit the timing of purchases and sales of shares of our common stock by the selling stockholders. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver copies of this prospectus to purchasers at or prior to the time of any sale of the shares.

We will bear all costs, expenses and fees in connection with the registration of the shares. The selling stockholders will bear all commissions and discounts, if any, attributable to the sales of the shares. The selling stockholders have agreed to indemnify certain persons, including broker-dealers and agents, against certain liabilities in connection with the offering of the shares, including liabilities arising under the Securities Act. The selling stockholders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the shares against certain

liabilities, including liabilities arising under the Securities Act.

Upon notification to us by a selling stockholder that any material arrangement has been entered into with broker-dealers for the sale or purchase of shares, we will file a supplement to this prospectus, if required, disclosing:

- the name of the participating broker-dealers;

- the number of shares involved;

9

TABLE OF CONTENTS

- the price at which such shares were sold;
- the commissions paid or discounts or concessions allowed to such broker-dealers, where applicable;
- that such broker-dealers did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and
- other facts material to the transaction.

In addition, upon being notified by a selling stockholder that a donee or pledgee intends to sell more than 500 shares, we will file a supplement to this prospectus.

TABLE OF CONTENTS

DESCRIPTION OF CAPITAL STOCK

The following summary description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law, our charter and our bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

General

Our charter provides that we may issue up to 125,000,000 shares of common stock and 25,000,000 shares of preferred stock, both having par value $0.01 per share. Our charter authorizes our board of directors to amend our charter to increase or decrease the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. As of April 12, 2016, 15,942,638 shares of common stock were issued and outstanding, including 624,106 shares reserved for issuance upon redemption of OP Units held by persons other than us, and no shares of preferred stock were issued and outstanding. Maryland law provides that none of our stockholders is personally liable to our creditors for any of our obligations solely as a result of that stockholder's status as a stockholder.

Voting Rights of Common Stock

Subject to the provisions of our charter regarding restrictions on the transfer and ownership of shares of common stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as provided with respect to any other class or series of shares of our stock, the holders of our common stock possess the exclusive voting power. Our directors are elected by plurality. There is no cumulative voting in the election of directors or otherwise, which means that the holders of a majority of the outstanding shares of common stock, voting as a single class, can elect all of the directors then standing for election.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, transfer all or substantially all of its assets or engage in a share exchange unless advised by the board of directors and approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter, unless a lesser percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides for approval by a majority of all the votes entitled to be cast on the matter for the matters described in this paragraph, except that the charter requirement for a two-thirds vote to remove directors may be amended only with approval of two-thirds of the votes entitled to be cast.

Dividends, Liquidation and Other Rights

All shares of common stock offered by this prospectus will be duly authorized, fully paid and non-assessable. Holders of our shares of common stock are entitled to receive dividends when authorized by our board of directors out of assets legally available for the payment of dividends. They also will be entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of any other class or series of our stock and to the provisions of our charter regarding restrictions on transfer of our stock. Holders of our shares of common stock have no preference, conversion, exchange, sinking fund or redemption rights and have no preemptive rights to subscribe for any of our securities. Subject to the restrictions on transfer of capital stock contained in our charter and to the ability of the board of directors to create shares of common stock with differing voting rights, all shares of common stock have equal dividend, liquidation and other rights.

Our charter authorizes our board of directors to reclassify any unissued shares of our common stock into other classes or series of classes of our stock (including preferred stock), to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of

TABLE OF CONTENTS

redemption for each such class or series. Further, our charter permits our board of directors, without stockholder action, to amend our charter to increase or decrease the aggregate number of shares of our stock with the number of shares of any class or series of stock that we have authority to issue.

Preferred Stock

Our charter authorizes our board of directors to reclassify any unissued shares of common stock into preferred stock, to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series of preferred stock previously authorized by our board of directors. Prior to issuance of shares of each class or series of preferred stock, our board will be required by Maryland law and our charter to fix the terms, 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. Thus, our board could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in their best interest. No shares of our preferred stock are outstanding, and we have no present plans to issue any preferred stock.

Power to Issue Additional Shares of Common Stock and Preferred Stock

We believe that the power of our board of directors to issue additional shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as our common stock, will be available for issuance without further action by our stockholders, unless stockholder 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 directors has no intention at the present time of doing so, it could authorize us to issue a class or series that could, depending upon the terms of such class or series, delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Policy on Poison Pills

We do not have a stockholders "rights plan," which for this purpose means any arrangement pursuant to which, directly or indirectly, common stock or preferred stock purchase rights may be distributed to stockholders that provide all stockholders, other than persons who meet certain criteria specified in the arrangement, the right to purchase the common stock or preferred stock at less than the prevailing market price of the common stock or preferred stock (sometimes referred to as a "poison pill"). Our board of directors considers it unlikely that such a plan would be considered in the future.

Our board of directors shall seek and obtain stockholder approval before adopting a poison pill; provided, however, that the board may adopt a poison pill if, under the then circumstances, the board, including a majority of its independent members, in its exercise of its fiduciary responsibilities, deems it to be in the best interests of the company's stockholders to adopt a poison pill without the delay in adoption that would come from the time reasonably anticipated to be necessary to seek stockholder approval.

If a poison pill were to be adopted without prior stockholder approval, the poison pill will either be ratified by stockholders or expire, without being renewed or replaced, within one year.

Restrictions on Ownership and Transfer

In order to qualify as a REIT under the Code, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock (after taking into account options to acquire shares of stock) may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities). These requirements, however, are not applicable to the first taxable year in which a REIT election is made.

TABLE OF CONTENTS
Because our board of directors believes that it is essential for us to qualify as a REIT, the charter, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own and prohibits certain entities from owning our shares. Our charter provides that, subject to certain exceptions, no person, including a "group" (as defined in Section 13(d)(3) of the Exchange Act, may beneficially own, or be deemed to own, by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock or the aggregate of the outstanding shares of our capital stock. Our board may, in its sole discretion, waive the ownership limit with respect to a particular stockholder if our board is presented with evidence satisfactory to it that the ownership will not then or in the future jeopardize our status as a REIT. In connection with our private placement in July and August 2014, our board waived such limit in connection with the ownership by Flexpoint Great Ajax Holdings LLC (an affiliate of an investment fund managed by Flexpoint Ford LLC, otherwise referred to as "Flexpoint REIT Investor"), investors consisting of an investment fund for which Wellington Management Company LLP is the investment advisor (collectively the "Wellington Investors") and certain other investors, for up to 20% of our then outstanding common stock plus the percentage of our common stock that such person would be deemed to beneficially own or constructively own as a result of its ownership of an interest in the Manager and the Servicer.
Our charter also prohibits any person from (a) beneficially owning shares of our capital stock that would result in us being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT, and (b) transferring shares of our capital stock if such transfer would result in our capital stock being owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial ownership of shares of our capital stock that will or may violate any of the foregoing restrictions on transferability and ownership is required to give notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT. The foregoing restrictions on transferability and ownership do not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.
Our charter provides that any transfer that will result in our shares being owned by fewer than 100 persons will be void and that any ownership or transfer of our shares in violation of the other restrictions described in the immediately preceding paragraph will result in the shares that would result in such violation being automatically transferred to a trust for the benefit of a charitable beneficiary, and the purported owner or transferee acquiring no rights in such shares. If the transfer to the trust is ineffective for any reason to prevent a violation of these restrictions, the transfer that would have resulted in such violation will be void from the outset and the purported transferee will acquire no rights in such shares.
In addition, our charter documents limit equity participation by "benefit plan investors" so that such participation in any class of our equity securities by such "benefit plan investors" will not be deemed "significant." For such purposes, the terms "benefit plan investors" and "significant" are determined by reference to certain regulations promulgated by the U.S. Department of Labor.
Our charter also provides that to the extent that we incur or our board of directors determines that we will incur any tax pursuant to Section 860E(c)(6) of the Code as the result of any "excess inclusion" income (within the meaning of Section 860E of the Code), which tax is allocable to a stockholder that is a "disqualified organization" (as defined in Section 860E(c)(5) of the Code), the our board of directors will cause us to allocate such tax solely to the stock held by such disqualified organization in the manner described by Treasury Regulations, by reducing from one or more distributions to be paid to such stockholder the tax incurred by us pursuant to Section 860E(c)(6) of the Code as a result of such stockholder's stock ownership.
All certificates representing shares of our capital stock will bear a legend referring to the restrictions described above. Every owner of more than 5% (or such lower percentage as required by the Code or the regulations promulgated thereunder) of all outstanding shares of our capital stock, including shares of common stock, within 30 days after the end of each taxable year, is required to give written notice to us stating the name and address of such owner, the number of shares of each class and series of shares of our stock which the

owner beneficially owns and a description of the manner in which the shares are held. Each owner shall provide to us such additional information as we may request in order to determine the effect, if any, of the beneficial ownership on our status as a REIT and to ensure compliance with the ownership limitations. In addition, each stockholder shall upon demand be required to provide to us such information as we may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the common stock or might otherwise be in the best interest of our stockholders.

Stock Exchange Listing

Our shares of common stock are listed on the NYSE under the symbol “AJX.”

Transfer Agent and Registrar

The transfer agent and registrar for our shares of common stock is American Stock Transfer & Trust Company, LLC.

Registration Rights

The following summary of certain provisions of our two registration rights agreements is not intended to be complete, and is subject to, and qualified in its entirety by reference to, all of the provisions of the registration rights agreements, which are filed as exhibits to the registration statement of which this prospectus is a part. See “Where You Can Find More Information.”

The purchasers of our common stock in our private placement in July and August 2014 are entitled to the benefits of a registration rights agreement, dated July 8, 2014 between us and FBR Capital Markets & Co., or the “original registration rights agreement.” Under the original registration rights agreement, we agreed, at our expense, to use our commercially reasonable efforts to file with the SEC no later than September 30, 2014 a shelf registration statement registering for resale the registrable shares (as defined in the original registration rights agreement) plus any additional common stock issued in respect thereof whether by stock dividend, stock distribution, stock split, or otherwise. We have satisfied this obligation. In connection with our private placement in December 2014, we entered into a registration rights agreement with the purchasers therein, or the “follow-on registration rights agreement” and together with the original registration rights agreement, the “registration rights agreements.” The follow-on registration rights agreement is substantially identical to the original registration rights agreement except with respect to “cutback rights” that could have been exercised in connection with our initial public offering, or IPO.

The registration statement of which this prospectus is a part is the “shelf registration statement” referred to in this section. We refer to this registration statement as the “shelf registration statement.” We will use our commercially reasonable efforts, subject to certain “blackout periods,” to continuously maintain the effectiveness of the shelf registration statement under the Securities Act until the first to occur of:

- the date on which the common stock covered by the shelf registration statement has been resold in accordance with the shelf registration statement;
- the date on which the common stock covered by the shelf registration statement either has been transferred pursuant to Rule 144 (or any successor or analogous rule) under the Securities Act or are eligible for resale, without any volume or manner-of-sale restrictions or compliance by us with any current public information requirements, pursuant to Rule 144; and
- the date on which the common stock covered by the shelf registration statement has been sold to us or ceases to be outstanding.

TABLE OF CONTENTS

We will bear certain expenses incident to our registration obligations upon exercise of these registration rights, including the payment of U.S. federal securities law and state “blue sky” registration fees, except that we will not bear any brokers’ or underwriters’ discounts and commissions or transfer taxes relating to sales of our common stock. We will agree to indemnify each selling stockholder for certain violations of U.S. federal or state securities laws in connection with any registration statement in which such selling stockholder sells its common stock pursuant to these registration rights. Each selling stockholder will in turn agree to indemnify us for U.S. federal or state securities law violations that occur in reliance upon written information it provides for us in the registration statement.

TABLE OF CONTENTS

CERTAIN PROVISIONS OF MARYLAND LAW AND OUR CHARTER AND BYLAWS

The following description of certain provisions of Maryland law and of our charter and bylaws is only a summary. For a complete description, we refer you to the applicable Maryland law, our charter and our bylaws.

Number of Directors; Vacancies

Our charter and bylaws provide that the initial number of directors shall be one and that the number of our directors may only be increased or decreased by a vote of a majority of the members of our board of directors; provided that the number of directors may not be less than the minimum required by Maryland law nor more than 15. Since the completion of our IPO, our board of directors has consisted of seven members.

Upon such time as we are eligible to make an election under Subtitle 8 of Title 3 of the MGCL, subject to the terms of any class or series of preferred stock, vacancies on our board of directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum.

Except as may be provided with respect to any class or series of our stock, at each annual meeting of our stockholders, each of our directors will be elected by our stockholders to serve until the next annual meeting of our stockholders and until his or her successor is duly elected and qualifies. A plurality of the votes cast in the election of directors is sufficient to elect a director, and holders of shares of common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares of common stock entitled to vote will be able to elect all of our directors at any annual meeting.

Removal of Directors

Our charter provides that a director may be removed only with cause and upon the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors. Our charter defines cause, for the purpose of removal of directors, to mean, with respect to a director, conviction of a felony or a judgment of a court that such director caused demonstrable, material harm to us through bad faith or active and deliberate dishonesty. Absent removal of all of our directors, this provision, when coupled with the provision of our charter making an election under Subtitle 8 of Title 3 of the MGCL permitting only our board of directors to fill vacant directorships, may preclude stockholders from removing incumbent directors and filling the vacancies created by such removal with their own nominees.

Business Combinations

Maryland law prohibits “business combinations” between us and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Maryland law defines an interested stockholder as:

- any person or entity who beneficially owns 10% or more of the voting power of our stock; or
- an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding voting stock.

A person is not an interested stockholder if our board of directors approves in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, our board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by our board of directors.

TABLE OF CONTENTS

After the five-year period, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of our then outstanding shares of capital stock; and
- two-thirds of the votes entitled to be cast by holders of our voting stock other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or stock held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its stock.

The statute permits various exemptions from its provisions, including business combinations that are approved by our board of directors before the time that the interested stockholder becomes an interested stockholder.

Pursuant to the MGCL, our board of directors has by resolution exempted business combinations between us and any other person from these provisions of the MGCL, provided that the business combination is first approved by our board of directors and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to such business combinations. As a result, any person may be able to enter into business combinations with us in whole or in part at any time. According to resolutions of our board of directors, we are not permitted to opt back in to these provisions without the approval of the holders of a majority of our shares of common stock. If this resolution were repealed or rescinded with approval by a vote of our stockholders, or our board of directors does not otherwise approve a business combination, the business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Control Share Acquisitions

Maryland law provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights unless approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer or by officers or directors who are our employees are excluded from the shares entitled to vote on the matter. "Control shares" are voting shares that, if aggregated with all other shares previously acquired by the acquiring person, or in respect of which the acquiring person is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiring person to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition of our stock may compel our board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, we may present the question at any stockholders' meeting.

If voting rights are not approved at the stockholders' meeting or if the acquiring person does not deliver an acquiring person statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem any or all of the control shares, except those for which voting rights have previously been approved, for fair value. Fair value is determined without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition or of any meeting of

TABLE OF CONTENTS

stockholders at which the voting rights of the shares were considered and not approved. If voting rights for control shares are approved at a stockholders' meeting, the acquirer may then vote a majority of the shares entitled to vote, and all other stockholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved by or exempted by our charter or bylaws.

Our bylaws contain a provision exempting any and all acquisitions of our shares of stock from the control shares provisions of Maryland law. We may not opt back in to this provision without the approval of the holders of a majority of our shares of common stock.

Maryland Unsolicited Takeovers Act

The Maryland Unsolicited Takeovers Act, or the "MUTA," permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of its five provisions, which provide that:

- the corporation's board of directors will be divided into three classes;
- the affirmative vote of two-thirds of all the votes entitled to be cast by stockholders generally in the election of directors is required to remove a director;
- the number of directors may be fixed only by vote of the directors;
- a vacancy on the board of directors may be filled only by the remaining directors and that directors elected to fill a vacancy will serve for the remainder of the full term of the class of directors in which the vacancy occurred; and
- the request of stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting is required for stockholders to require the calling of a special meeting of stockholders.

A board of directors may implement all or any of those provisions without amending the charter or bylaws and without stockholder approval. The corporation may be prohibited by its charter or by resolution of its board of directors from electing any of the provisions of the statute. Our charter provides that we will not elect to be subject to the provisions of the MUTA pursuant to which our board of directors would be divided into three classes. That prohibition in our charter may not be repealed unless the repeal, or classification of our directors, is approved by our stockholders by a vote of at least a majority of the votes entitled to be cast. We are not prohibited from implementing any other provision of the statute. Our charter provides an election by us into certain provisions of the statute in order that, except as may be provided by our board of directors in setting the terms of any class of preferred stock, any vacancies on the board may be filled only by a majority of the directors then in office, even if less than a quorum, and a director elected to fill a vacancy will serve for the balance of the unexpired term.

Amendment of Charter

Except for amendments to the provisions of our charter relating to the removal of directors and the vote required to amend these provisions (each of which must be advised by our board of directors and approved by the affirmative vote of stockholders entitled to cast not less than two-thirds of all the votes entitled to be cast on the matter), our charter generally may be amended only if advised by our board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter.

Our board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws and the vote required to amend such provisions, must be approved by the holders of at least three-fourths of

the outstanding shares of our common stock entitled to vote thereon (other than shares of our common stock held by our Manager and the Servicer and any shares of our common stock held by our directors and executive officers).

18

TABLE OF CONTENTS

Limitation of Liability and Indemnification

Maryland law permits a Maryland corporation to include in its charter a provision limiting liability of its directors and officers to the corporation and its stockholders for money damages, but not any provision that limits the liability of directors or officers to the corporation or its stockholders:

- to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services; or

- to the extent that a judgment adverse to the person is entered based on a finding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action.

Our charter limits the liability of our directors and officers to us and our stockholders for money damages to the maximum extent permitted by Maryland law.

Our charter provides that we have the power, to the maximum extent permitted by Maryland law, to indemnify, and to pay or reimburse reasonable expenses to, any of our present or former directors or officers or any individual who, while a director or officer and at our request, serves or has served another entity, employee benefit plan or any other enterprise as a director, officer, partner or otherwise. Our bylaws require us, to the maximum extent permitted by Maryland law, to indemnify each present or former director or officer who is made a party to a proceeding by reason of his or her service to us.

Maryland law will permit us to indemnify our present and former directors and officers against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they are made a party by reason of service to us, unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty;

- the director or officer actually received an improper personal benefit in money, property or services; or

- in the case of a criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, Maryland law will prohibit us from indemnifying our present and former directors and officers for an adverse judgment in a derivative action or if the director or officer was adjudged to be liable for an improper personal benefit. Further, a director or officer may not be indemnified for a proceeding brought by that person against us, except (i) for a proceeding brought to enforce indemnification or (ii) if the charter or bylaws, a resolution of the board of directors or an agreement approved by the board of directors to which the corporation is a party expressly provide otherwise, none of which is applicable to us.

Our bylaws and Maryland law will require us, as a condition to advancing expenses in certain circumstances, to obtain:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification; and

- a written undertaking by him or her to repay the amount reimbursed by us if the requisite standard of conduct is not met.

Operations

We generally will be prohibited from engaging in certain activities, including acquiring or holding any asset or engaging in any activity that would cause us to fail to qualify as a REIT.

19

TABLE OF CONTENTS

Term and Termination

Our charter provides for us to have a perpetual existence. Pursuant to our charter, and subject to the provisions of any of our classes or series of shares of capital stock then outstanding and the approval by a majority of the entire board of directors, our stockholders, at any meeting thereof, by the affirmative vote of a majority of all of the votes entitled to be cast on the matter, may approve a plan of liquidation and dissolution.

Meetings of Stockholders

Under our bylaws, annual meetings of stockholders are to be held upon reasonable notice and not less than 30 days after delivery of our annual report as determined by our board of directors. Special meetings of stockholders may be called only by a majority of the directors then in office, by the Chairman of our board of directors, our President or our Secretary upon the written request of the holders of common stock entitled to cast not less than a majority of all votes entitled to be cast at such meeting. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting.

Maryland law provides that stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous consent in lieu of a meeting (unless the charter permits the consent to be less than unanimous, which our charter does not).

Advance Notice of Director Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of persons for election to our board of directors and the proposal of business to be considered by stockholders at the annual meeting may be made only:

- pursuant to our notice of the meeting;
- by our board of directors; or
- by a stockholder who was a stockholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting of stockholders and nominations of persons for election to our board of directors may be made only:

- pursuant to our notice of the meeting;
- by our board of directors; or
- provided that our board of directors has determined that directors shall be elected at such meeting, by a stockholder who was a stockholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

The purpose of requiring stockholders to give advance notice of nominations and other proposals is to afford our board of directors the opportunity to consider the qualifications of the proposed nominees or the advisability of the other proposals and, to the extent considered necessary by our board of directors, to inform stockholders and make recommendations regarding the nominations or other proposals. The advance notice procedures also permit a more orderly procedure for conducting our stockholder meetings. Although our bylaws will not give our board of directors the power to disapprove timely stockholder nominations and proposals, they may have the effect of precluding a

contest for the election of directors or proposals for other action if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors to our board of directors or to approve its own proposal.

TABLE OF CONTENTS

No Approval Rights

In certain extraordinary transactions, Maryland law provides to dissenting stockholders the right to demand and receive the fair value of their shares, subject to certain procedures and requirements set forth in the statute. Those rights are commonly referred to as appraisal rights. Except with respect to appraisal rights arising in connection with Maryland's control share acquisition statute discussed above, as permitted by Maryland law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless our board of directors determines that such rights apply to a subsequently occurring transaction in connection with which stockholders would otherwise be entitled to appraisal rights under Maryland law.

Possible Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

The business combination provision and control share acquisition provisions of Maryland law (if the applicable provision in our bylaws is rescinded), the provisions of our charter on the removal of directors and the restrictions on the transfer of shares of our stock, and the advance notice provisions of our bylaws could have the effect of delaying, deterring or preventing a transaction or a change in the control that might involve a premium price for holders of the shares of common stock or might otherwise be in their best interest.

TABLE OF CONTENTS

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes the material U.S. federal income tax considerations that a prospective stockholder may consider relevant. Because this section is a summary, it does not address all aspects of taxation that may be relevant to particular stockholders in light of their personal investment or tax circumstances, or to certain types of stockholders that are subject to special treatment under the U.S. federal income tax laws, such as:

- insurance companies;
- tax-exempt organizations, tax-deferred and tax-advantaged accounts;
- financial institutions or broker-dealers;
- non-U.S. individuals and non-U.S. corporations (except to the extent discussed in "— Taxation of Non-U.S. Holders" or "— Foreign Account Tax Compliance Act" below);
- U.S. expatriates;
- persons who mark-to-market our shares of common stock;
- subchapter S corporations;
- U.S. stockholders (as defined below) whose functional currency is not the U.S. dollar;
- regulated investment companies and REITs, and their investors;
- trusts and estates (except to the extent discussed herein);
- persons who receive our shares of common stock through the exercise of employee stock options or otherwise as compensation;
- persons holding our shares of common stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment;
- persons subject to the alternative minimum tax provisions of the Code;
- persons holding our shares of common stock through a partnership or similar pass-through entity; and

- persons holding a 10% or more (by vote or value) beneficial interest in our shares of common stock.

This summary assumes that stockholders hold our shares of common stock as capital assets for U.S. federal income tax purposes, which generally means as property held for investment.

The statements in this section are not intended to be, and should not be construed as, tax advice. The statements in this section are based on the Code, current, temporary and proposed Treasury Regulations, the legislative history of the Code, current administrative interpretations and practices of the IRS, and court decisions. The reference to IRS interpretations and practices includes the IRS practices and policies endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this discussion. Future legislation, Treasury Regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. We have not received any rulings from the IRS concerning our intention to qualify as a REIT. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

WE URGE YOU TO CONSULT YOUR OWN TAX ADVISER REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND SALE OF OUR SHARES OF COMMON STOCK AND OF OUR ELECTION TO BE TAXED AS A REIT. SPECIFICALLY, YOU SHOULD CONSULT YOUR OWN TAX ADVISER REGARDING THE U.S. FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, SALE AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

Taxation of Our Company

We elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with our short taxable year ended December 31, 2014. We believe that, commencing with our short taxable year ended December 31, 2014, we have been organized and have operated in such a manner as to qualify for taxation as a REIT under the U.S. federal income tax laws, and we intend to continue to operate in such a manner, but no assurances can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. This section discusses the laws governing the U.S. federal income tax treatment of a REIT and its stockholders. These laws are highly technical and complex.

In connection with this offering, Morrison & Foerster LLP will render an opinion that, commencing with our taxable year ended December 31, 2014, we were organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code, and our current and proposed method of operation will have permitted us to continue to meet the requirements for qualification and taxation as a REIT for our taxable year ended December 31, 2015, and will enable us to continue to meet the requirements for qualification and taxation as a REIT for our taxable year ending December 31, 2016 and subsequent taxable years. Investors should be aware that Morrison & Foerster LLP's opinion is based upon customary assumptions, will be conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the conduct of our business, is not binding upon the IRS, or any court and speaks as of the date issued. In addition, Morrison & Foerster LLP's opinion will be based on existing U.S. federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depends upon our ability to meet on a continuing basis, through actual results, certain qualification tests set forth in the U.S. federal income tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of our capital stock ownership, and the percentage of our earnings that we distribute. Morrison & Foerster LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. Our ability to satisfy the REIT qualification tests will depend upon our analysis of the characterization and fair market values of our assets, some of which will not be susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis (which, based on the types of assets we will own, could fluctuate rapidly, significantly and unpredictably). In addition, we will be required to make estimates of or otherwise determine the value of real property that is collateral for our mortgage loan assets. There can be no assurance that the IRS would not challenge our valuations or valuation estimates of this collateral. For a discussion of the tax consequences of our failure to qualify as a REIT, see "Risk Factors — Risks Related to this Offering — Failure to Qualify."

If we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that we currently distribute to our stockholders, but taxable income generated by any domestic TRS will be subject to regular corporate income tax. However, we will be subject to U.S. federal tax in the following circumstances:

- We will pay U.S. federal income tax on our taxable income, including net capital gain, that we do not distribute to stockholders during, or within a specified time period after, the calendar year in which the income is earned.

- We may be subject to the "alternative minimum tax" on any items of tax preference, including any deductions of net operating losses, that we do not distribute or allocate to stockholders.

- We will pay income tax at the highest corporate rate on:

  net income from the sale or other disposition of property acquired through foreclosure, or foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, and

other non-qualifying income from foreclosure property.

- We will pay a 100% tax on net income earned from sales or other dispositions of property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business.

- If we fail to satisfy the 75% gross income test or the 95% gross income test, as described below under "— Gross Income Tests," but nonetheless continue to qualify as a REIT because we meet other requirements, we will be subject to a 100% tax on:

the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by

a fraction intended to reflect our profitability.

- If we fail to satisfy the asset tests (other than a de minimis failure of the 5% asset test, the 10% vote test or the 10% value test, as described below under "— Asset Tests"), as long as the failure was due to reasonable cause and not to willful neglect, we dispose of the assets or otherwise comply with such asset tests within six months after the last day of the quarter in which we identify such failure and we file a schedule with the IRS describing the assets that caused such failure, we will pay a tax equal to the greater of $50,000 or the product of the highest U.S. federal corporate tax rate (currently, 35%) and the net income from the non-qualifying assets during the period in which we failed to satisfy such asset tests.

- If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and the failure was due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50,000 for each such failure.

- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet recordkeeping requirements intended to monitor our compliance with rules relating to the composition of a REIT's stockholders, as described below in "— Requirements for Qualification."

- If we fail to distribute during a calendar year at least the sum of: (i) 85% of our REIT ordinary income for the year, (ii) 95% of our REIT capital gain net income for the year and (iii) any undistributed taxable income from earlier periods, we will pay a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed, plus any retained amounts on which income tax has been paid at the corporate level.

- We may elect to retain and pay income tax on our net long-term capital gain. In that case, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gain to the stockholder) and would receive a credit or refund for its proportionate share of the tax we paid.

- We will be subject to a 100% excise tax on transactions between us and a TRS that are not conducted on an arms'-length basis.

•

The earnings of our TRSs will be subject to U.S. federal corporate income tax.

•

If we acquire any asset from a C corporation, or a corporation that generally is subject to full corporate-level tax, in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to the C corporation's basis in the asset or to another asset, we will pay tax at the highest regular corporate rate applicable if we recognize gain on the sale or disposition of the asset during the 5-year period after we acquire the asset. The amount of gain on which we will pay tax is the lesser of:

the amount of gain that we recognize at the time of the sale or disposition, and

the amount of gain that we would have recognized if we had sold the asset at the time we acquired it, assuming that the C corporation will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired.

•

If we derive "excess inclusion income" from an interest in certain mortgage loan securitization structures (i.e., from a TMP, or a residual interest in a real estate mortgage investment conduit, or

REMIC), we could be subject to corporate level U.S. federal income tax (currently at a 35% rate) to the extent that such income is allocable to specified types of tax-exempt stockholders known as "disqualified organizations" that are not subject to unrelated business income tax. To the extent that we own a REMIC residual interest or a TMP through a TRS, we will not be subject to this tax directly, but all of the income from the investment will be subject to U.S. federal income tax at the TRS level. See "— Taxable Mortgage Pools and Excess Inclusion Income" below.

In addition, notwithstanding our qualification as a REIT, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes. Moreover, as further described below, any domestic TRS in which we may own an interest will be subject to U.S. federal, state and local corporate income tax on its taxable income. In addition, we may be subject to a variety of taxes other than U.S. federal income tax, including state and local franchise, property and other taxes and foreign taxes. We could also be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification

A REIT is a corporation, trust, or association that meets each of the following requirements:

1. It is managed by one or more trustees or directors.

2. Its beneficial ownership is evidenced by transferable shares or by transferable certificates of beneficial interest.

3. It would be taxable as a domestic corporation, but for the REIT provisions of the U.S. federal income tax laws.

4. It is neither a financial institution nor an insurance company subject to special provisions of the U.S. federal income tax laws.

5. At least 100 persons are beneficial owners (determined without reference to any rules of attribution) of its shares or ownership certificates.

6. Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the U.S. federal income tax laws define to include certain entities, during the last half of any taxable year.

7. It elects to be taxed as a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements that must be met to elect and maintain REIT qualification.

8. It meets certain other qualification tests, described below, regarding the nature of its income and assets and the distribution of its income.

9. It uses the calendar year as its taxable year.

10. It has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

We must meet requirements 1 through 4 and 7 through 10 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. Requirements 5 and 6 apply to us beginning with our 2015 taxable year. If we comply with all the requirements for ascertaining the ownership of our outstanding shares in a taxable year and have no reason to know that we violated requirement 6, we will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining share ownership under requirement 6, an “individual” generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An “individual” generally does not include a trust that is a qualified employee pension or profit sharing trust under the U.S. federal income tax laws, however, and beneficiaries of such a trust will be treated as holding our shares in proportion to their actuarial interests in the trust for purposes of requirement 6.

We believe that we will issue shares with sufficient diversity of ownership to satisfy requirements 5 and 6. In addition, our charter restricts the ownership and transfer of our shares so that we should continue to satisfy these requirements. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy these share ownership requirements. If we fail to satisfy these share ownership requirements, our qualification as a REIT may terminate. The provisions of our charter restricting the ownership and transfer of the shares are described in "Description of Capital Stock — Restrictions on Ownership and Transfer."

To monitor compliance with the share ownership requirements, we generally will be required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of significant percentages of our shares pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include our dividends in their gross income). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. If you fail or refuse to comply with the demands, you will be required by Treasury Regulations to submit a statement with your tax return disclosing your actual ownership of our shares and other information. In addition, we must satisfy all relevant filing and other administrative requirements that must be met to elect and maintain REIT status. We intend to comply with these requirements.

Qualified REIT Subsidiaries

A corporation that is a "qualified REIT subsidiary" is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A qualified REIT subsidiary is a corporation, other than a TRS, all of the shares of which are owned, directly or through one or more qualified REIT subsidiaries or disregarded entities, by the REIT. Thus, in applying the requirements described herein, any qualified REIT subsidiary that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Other Disregarded Entities and Partnerships

An unincorporated domestic entity, such as a limited liability company, that has a single owner generally is not treated as an entity separate from its parent for U.S. federal income tax purposes. An unincorporated domestic entity with two or more owners generally is treated as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. For purposes of the 10% value test (see "— Asset Tests"), our proportionate share is based on our proportionate interest in the equity interests and certain debt securities issued by the partnership. For all of the other asset and income tests, our proportionate share is based on our proportionate interest in the capital interests in the partnership. Our proportionate share of the assets, liabilities, and items of income of any partnership, joint venture, or limited liability company that is treated as a partnership for U.S. federal income tax purposes in which we acquire an interest, directly or indirectly, will be treated as our assets and gross income for purposes of applying the various REIT qualification requirements.

In the event that a disregarded subsidiary of ours ceases to be wholly-owned — for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of ours — the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the total value or total voting power of the outstanding securities of another corporation. See "— Asset Tests" and "— Gross Income Tests."

TABLE OF CONTENTS

Ownership of Subsidiary REITs

Our operating partnership may own 100% of the common stock in one or more of our subsidiaries that will elect to be taxed as REITs, which we refer to as "Subsidiary REITs." We may use the Subsidiary REITs for various purposes, including to execute non-REMIC securitization transactions that are treated as TMPs, as described in "— Taxable Mortgage Pools and Excess Inclusion Income."

Any Subsidiary REIT will be subject to the various REIT qualification requirements and other limitations described that apply to us. We believe that any Subsidiary REIT will be organized and will operated in a manner to permit it to qualify for taxation as a REIT for U.S. federal income tax purposes from and after the effective date of its REIT election. However, if any Subsidiary REIT were to fail to qualify as a REIT, then (i) the Subsidiary REIT would become subject to regular corporate income tax as described in "— Failure to Qualify," and (ii) our ownership of shares of common stock in the Subsidiary REIT would not be a qualifying real estate asset for purposes of the 75% asset test and would become subject to the 5% asset test, the 10% vote test, and the 10% value test generally applicable to our ownership in corporations other than REITs, qualified REIT subsidiaries and TRSs. See "— Asset Tests." If a Subsidiary REIT were to fail to qualify as a REIT, it is possible that we would not meet the 10% vote test and the 5% asset test, 10% value test with respect to our indirect interest in such entity, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions, as described in "— Asset Tests."

Taxable REIT Subsidiaries

A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. The subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation with respect to which a TRS directly or indirectly owns more than 35% of the voting power or value of the outstanding securities will automatically be treated as a TRS. However, an entity will not qualify as a TRS if it directly or indirectly operates or manages a lodging or health care facility or, generally, provides to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. We generally may not own more than 10%, as measured by voting power or value, of the securities of a corporation that is not a qualified REIT subsidiary or a REIT unless we and such corporation elect to treat such corporation as a TRS. Overall, no more than 25% (or, beginning January 1, 2018, 20%) of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

The separate existence of a TRS or other taxable corporation, unlike a disregarded subsidiary as discussed above, is not ignored for U.S. federal income tax purposes. Accordingly, a domestic TRS would generally be subject to corporate income tax on its earnings, which may reduce the cash flow generated by us and our subsidiaries in the aggregate and our ability to make distributions to our stockholders.

A REIT is not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by the subsidiary is an asset in the hands of the REIT, and the REIT generally recognizes as income the dividends, if any, that it receives from the subsidiary. This treatment can affect the gross income and asset test calculations that apply to the REIT, as described below. Because a parent REIT does not include the assets and income of such subsidiary corporations in determining the parent REIT's compliance with the REIT requirements, such entities may be used by the parent REIT to undertake indirectly activities that the REIT rules might otherwise preclude it from doing directly or through pass-through subsidiaries or render commercially unfeasible (for example, activities that give rise to certain categories of income such as non-qualifying hedging income or inventory sales).

Certain restrictions imposed on TRSs are intended to ensure that such entities will be subject to appropriate levels of U.S. federal income taxation. First, a TRS may not deduct interest payments made in any year to an affiliated REIT to the extent that such payments exceed, generally, 50% of the TRS's adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the 50% test is satisfied in that year). In addition, if amounts are paid to a REIT or deducted by a TRS due to transactions between a REIT, its tenants and/or a TRS, that exceed

the amount that would be paid to or deducted by a party in an arms'-length transaction, the REIT generally will be subject to an excise tax equal to 100% of such excess. Similarly, if amounts are paid to a TRS for services provided to or on behalf of its parent REIT and such amounts are less than the amount that would be paid to a party in an arms'-length transaction, the REIT generally will be subject to an excise tax equal to 100% of such deficiency. We intend that all of our transactions with Thetis TRS, GAJX Real Estate LLC and any other TRS that we may form will be conducted on an arms'-length basis, but there can be no assurance that we will be successful in this regard.

We have elected to treat Thetis TRS and GAJX Real Estate LLC as TRSs and we may form or invest in additional domestic or foreign TRSs in the future. We may also use a TRS, including GAJX Real Estate LLC, to market and sell distressed mortgage loans and property acquired upon foreclosure of those loans, and may modify loans through a TRS. We intend to market and sell mortgage loans and the related foreclosed property through a TRS when the sale of those assets directly by us or our operating partnership may be subject to the 100% prohibited transactions tax. See "— Gross Income Tests — Prohibited Transactions." We anticipate that our marketing and sales of loans and the related foreclosed property will generally be conducted through a TRS.

It is possible that such TRS will be treated as a dealer for U.S. federal income tax purposes. In that case, such TRS will generally mark all the loans it holds on the last day of each taxable year, if any, to their market value, and will recognize ordinary income or loss on such loans with respect to such taxable year as if they had been sold for that value on that day. If we significantly modify mortgage loans in a TRS and determine that such TRS qualifies as a trader, but not a dealer, for tax purposes, such TRS may elect to be subject to similar "mark-to-market" rules that apply to electing traders.

A TRS may also provide services with respect to our properties to the extent we determine that having a TRS provide those services will assist us in complying with the gross income tests applicable to REITs. See "— Gross Income Tests — Rents From Real Property."

To the extent that our TRSs pay any taxes, they will have less cash available for distribution to us. If dividends are paid by domestic TRSs to us, then the dividends we designate and pay to our stockholders who are taxed at individual rates, up to the amount of dividends that we receive from such entities, generally will be eligible to be taxed at the reduced 20% maximum U.S. federal rate applicable to qualified dividend income. See "— Taxation of U.S. Holders — Taxation of Taxable U.S. Holders on Distributions on Shares."

Gross Income Tests

We must satisfy two gross income tests annually to qualify and maintain our qualification as a REIT. First, at least 75% of our gross income for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgage loans on real property or qualified temporary investment income. Qualifying income for purposes of the 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by a mortgage on real property or on interests in real property;
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real estate assets (other than nonqualified publicly offered REIT debt instruments, as described below);
- income and gain derived from foreclosure property (as described below);
-

income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC's assets are real estate assets, in which case all of the income derived from the REMIC; and

- income derived from the temporary investment of new capital that is attributable to the issuance of our shares or a public offering of our debt with a maturity date of at least five years and that we receive during the one-year period beginning on the date on which we received such new capital.

Second, in general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test (except for income derived from the temporary investment of new capital), other types of interest and dividends, gain from the sale or disposition of stock or securities or any combination of these.

Certain income items do not qualify for either gross income test. Other types of income are excluded from both the numerator and the denominator in one or both of the gross income tests. For example, gross income from the sale of property that we hold primarily for sale to customers in the ordinary course of business, income and gain from "hedging transactions," as defined in "— Hedging Transactions," and gross income attributable to cancellation of indebtedness, or "COD," income will be excluded from both the numerator and the denominator for purposes of both the 75% and 95% gross income tests. In addition, certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. See "— Foreign Currency Gain." For purposes of the 75% and 95% gross income tests, we are treated as receiving our proportionate share of our operating partnership's gross income. We will monitor the amount of our non-qualifying income and will seek to manage our investment portfolio to comply at all time with the gross income tests. The following paragraphs discuss the specific application of the gross income tests to us.

Dividends

Our share of any dividends received from any corporation (including dividends from our TRSs, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest, if any, will be qualifying income for purposes of both gross income tests.

Interest

The term "interest," as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and

- an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property, and only to the extent that the amounts received by the debtor would be qualifying "rents from real property" if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests, provided that the property is not inventory or dealer property in the hands of the borrower or the REIT.

Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, market discount, original issue discount, discount points, prepayment penalties, loan assumption fees, and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, if the loan is secured by real property and other property and the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (i) the date the REIT agreed to originate or acquire the loan or (ii) as discussed below, in the event of a "significant modification," the date we modified the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property — that is, the amount by which the loan balance exceeds the applicable value of the real estate that secures the loan.

We intend to acquire re-performing, and non-performing mortgage loans. Our mortgage loans will be secured by a first lien on real property. Interest on debt secured by mortgages on real property or on interests in real property, including, for this purpose, prepayment penalties, loan assumption fees and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. Under the applicable Treasury Regulation (referred to as the "interest apportionment regulation"), if we receive interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that we acquired the mortgage loan, the interest income will be apportioned between the real property and the other collateral, and our income from the arrangement will qualify for purposes of the 75% gross income test only to the extent that the interest is allocable to the real property. Even if a mortgage loan is not secured by real property, or is undersecured, the income that it generates may nonetheless qualify for purposes of the 95% gross income test. In Revenue Procedure 2014-51, the IRS interpreted the "principal amount" of the loan for purposes of that test to be the face amount of the loan, despite the Code's requirement that taxpayers treat any market discount (discussed below) as interest rather than principal. For taxable years beginning after December 31, 2015, in the case of mortgage loans secured by both real and personal property, if the fair market value of such personal property does not exceed 15% of the total fair market value of all property securing the loan, then the personal property securing the loan will be treated as real property for purposes of determining whether the mortgage interest income is qualifying for purposes of the 75% gross income test.
We expect to acquire re-performing, and non-performing mortgage loans for substantially less than their face amount. However, we believe that all of the mortgage loans that we will 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 rules and Revenue Procedure 2014-51 (to the extent it addresses interest apportionment) will not apply to our mortgage loans. Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by other property, then depending upon the value of the real property securing our mortgage loans and their face amount, and the sources of our gross income generally, we might not be able to satisfy the 75% income test.
Under the Code, if the terms of a loan are modified in a manner constituting a "significant modification," such modification triggers a deemed exchange of the original loan for the modified loan. IRS Revenue Procedure 2014-51 provides a safe harbor pursuant to which we will not be required to redetermine the fair market value of the real property securing a loan for purposes of the gross income and asset tests in connection with a loan modification that is: (i) occasioned by a borrower default; or (ii) made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan. If we modify our mortgage loans in the future, no assurance can be provided that all of our loan modifications will qualify for the safe harbor in Revenue Procedure 2014-51. To the extent we significantly modify a mortgage loan in a manner that does not qualify for that safe harbor, we will be required to redetermine the value of the real property securing the loan at the time it was significantly modified. If the fair market value of the real property securing a loan has decreased, a portion of the interest income from the loan would not be qualifying income for the 75% gross income test and a portion of the value of the loan would not be a qualifying asset for purposes of the 75% asset test.
Hedging Transactions
From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, and futures and forward contracts. Except to the extent provided by Treasury Regulations, income and gain from "hedging transactions" will be excluded from gross income for purposes of both the 75% and 95% gross income tests. A "hedging transaction" includes any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate changes, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets ("liability hedge"). A "hedging transaction" also includes any transaction entered into primarily to manage risk of currency fluctuations with respect to any item of income or gain that is qualifying income for purposes of the 75% or 95% gross income test (or any property which generates such income or gain). To the extent we enter into transactions to mitigate the risk of hedging transactions where the hedged asset has been extinguished or disposed of, such transaction

may also constitute a "hedging transaction." We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and satisfy other identification requirements. To the extent that we hedge for other purposes, or to the extent that a portion of the hedged assets are not treated as "real estate assets" (as described below under "— Asset Tests") or we enter into derivative transactions that are not liability hedges or we fail to satisfy the identification requirements with respect to a hedging transaction, the income from those transactions will likely be treated as non-qualifying income for purposes of both gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT, but we cannot assure you that we will be able to do so. We may conduct some or all of our hedging activities through a TRS or other corporate entity, the income from which may be subject to U.S. federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries.

Fee Income

We may earn income from fees in certain circumstances. Fee income generally will be qualifying income for purposes of both the 75% and 95% gross income tests if it is received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined by income and profits. Other fees, including certain amounts received in connection with mortgage servicing rights (which we do not currently intend to acquire on a standalone basis), generally are not qualifying income for purposes of either gross income test. Any fees earned by a TRS, like other income earned by a TRS, will not be included in the REIT's gross income for purposes of the gross income tests.

Foreign Currency Gain

Certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. "Real estate foreign exchange gain" will be excluded from gross income for purposes of the 75% and 95% gross income tests. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or on interest in real property and certain foreign currency gain attributable to certain "qualified business units" of a REIT. "Passive foreign exchange gain" will be excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain as described above, and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to foreign currency gain derived from dealing, or engaging in substantial and regular trading, in securities. Such gain is treated as non-qualifying income for purposes of both the 75% and 95% gross income tests.

Rents from Real Property

We have acquired interests in real property as part of our initial portfolio and may acquire additional real property or an interest therein in the future. Rents we receive from our interests in real property will qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above only if the following conditions are met:

- First, the amount of rent must not be based in whole or in part on the income or profits of any person. An amount received or accrued generally will not be excluded, however, from rents from real property solely by reason of being based on fixed percentages of receipts or sales.

- Second, rents we receive from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a TRS, at least 90% of the property is leased to unrelated tenants, the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space and the rent is not attributable to an increase in rent due to a modification of a lease with a "controlled TRS" (i.e., a TRS in which we own

TABLE OF CONTENTS

directly or indirectly more than 50% of the voting power or value of the stock). A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant.

- Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

- Fourth, we generally must not operate or manage our real property or furnish or render services to our tenants, other than through an "independent contractor" who is adequately compensated and from whom we do not derive revenue. We may, however, provide services directly to tenants if the services are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not considered to be provided for the tenants' convenience. In addition, we may provide a minimal amount of "non-customary" services to the tenants of a property, other than through an independent contractor, as long as our income from the services does not exceed 1% of our income from the related property. Furthermore, we may own up to 100% of the stock of a TRS, which may provide customary and non-customary services to tenants without tainting our rental income from the related properties.

If a portion of the rent that we receive from a property does not qualify as "rents from real property" because the rent attributable to personal property exceeds 15% of the total rent for a taxable year, the portion of the rent that is attributable to personal property will not be qualifying income for purposes of either the 75% or 95% gross income test. Thus, if such rent attributable to personal property, plus any other income that is non-qualifying income for purposes of the 95% gross income test, during a taxable year exceeds 5% of our gross income during the year, we would lose our REIT qualification. Further, the rent from a particular property does not qualify as "rents from real property" if (i) the rent is considered based on the income or profits of the tenant, (ii) the tenant either is a related party tenant or fails to qualify for the exceptions to the related party tenant rule for qualifying taxable REIT subsidiaries or (iii) we furnish non-customary services to the tenants of the property, or manage or operate the property, other than through a qualifying independent contractor or a taxable REIT subsidiary.

Our operating partnership and/or its subsidiaries will generally lease our REO properties to tenants that are individuals. Our REO property leases will typically have a term of at least one year and require the tenant to pay fixed rent. We may also lease portions of our mixed-use properties, if any, to tenants that are entities. We intend to structure any such leases so that the rent will qualify as "rents from real property," and do not intend to own more than 10% of any tenant of a mixed-use property. We do not anticipate leasing significant amounts of personal property pursuant to any of our leases. Moreover, we do not intend to perform any services other than customary ones for our tenants, unless such services are provided through independent contractors or a TRS. Accordingly, we believe that our leases generally produce rent that qualifies as "rents from real property" for purposes of the 75% and 95% gross income tests. In addition to the rent, the tenants may be required to pay certain additional charges. To the extent that such additional charges represent reimbursements of amounts that we are obligated to pay to third parties such charges generally will qualify as "rents from real property." To the extent such additional charges represent penalties for nonpayment or late payment of such amounts, such charges should qualify as "rents from real property." However, to the extent that late charges do not qualify as "rents from real property," they instead will be treated as interest that qualifies for the 95% gross income test.

Prohibited Transactions

A REIT will incur a 100% tax on the net income (including foreign currency gain) derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. Any such income will be excluded from the application of the 75% and 95% gross income tests. Whether a REIT holds an asset "primarily for sale to customers in the ordinary course of a trade or business" depends on the facts and circumstances in effect from time to time, including those related to a particular asset. We believe that none of our assets will be held primarily for sale to customers and that a sale of any of our assets will not be in the ordinary course of our business. No assurance, however, can be given that the IRS will not

successfully assert a contrary

position, in which case we would be subject to the prohibited transaction tax on the sale of those assets. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we intend to dispose of any asset that may be treated as held "primarily for sale to customers in the ordinary course of a trade or business" by contributing or selling the asset to a TRS prior to marketing the asset for sale.

Foreclosure Property

We will be subject to tax at the maximum corporate rate on any income (including foreign currency gain) from foreclosure property, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. Gross income from foreclosure property will qualify, however, under the 75% and 95% gross income tests. Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan or lease was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered, however, to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is granted by the Secretary of the U.S. Treasury. This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property), or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property);
- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business that is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

To the extent we foreclose or enter into a deed-in-lieu arrangement on any distressed mortgage loan that we acquire, we may not be able to make a foreclosure property election with respect to such property because we may be treated as having acquired the loan at a time when default on such loan was imminent or anticipated. If we anticipate selling a property shortly after foreclosure or deed-in-lieu of foreclosure, we expect that we will contribute or sell the property to a TRS, which will market and sell the property. See "— Taxable REIT Subsidiaries" and "— Gross Income Tests — Prohibited Transactions."

Failure to Satisfy Gross Income Tests

If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we are entitled to qualify for relief under certain provisions of the U.S. federal income tax laws. Those relief provisions generally will be available if:

- our failure to meet those tests is due to reasonable cause and not to willful neglect; and

- following such failure for any taxable year, a schedule of the sources of our income is filed with the IRS in accordance with regulations prescribed by the Secretary of the U.S. Treasury.

We cannot with certainty predict whether any failure to meet these tests will qualify for the relief provisions. If these relief provisions are inapplicable to a particular set of circumstances involving us, we will not qualify as a REIT. As discussed above in "— Taxation of Our Company," even if the relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by a fraction intended to reflect our profitability.

Asset Tests

To qualify as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year. First, at least 75% of the value of our total assets must consist of:

- cash or cash items, including certain receivables and investments in money market funds;
- government securities;
- interests in real property, including leaseholds and options to acquire real property and leaseholds;
- interests in mortgage loans secured by real property or by interests in real property;
- stock in other REITs;
- investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term; and
- regular or residual interests in a REMIC. However, if less than 95% of the assets of a REMIC consist of assets that are qualifying real estate-related assets under the U.S. federal income tax laws, determined as if we held such assets, we will be treated as holding directly our proportionate share of the assets of such REMIC.

For taxable years beginning after December 31, 2015, the 75% asset class also includes debt instruments of "publicly offered REITs," personal property securing a mortgage secured by both real property and personal property if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property, and personal property leased in connection with a lease of real property for which the rent attributable to personal property is not greater than 15% of the total rent received under the lease.

Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer's securities (other than any TRS we may own) may not exceed 5% of the value of our total assets (the "5% asset test").

Third, of our investments not included in the 75% asset class, we may not own more than 10% of the total voting power or 10% of the total value of any one issuer's outstanding securities (the "10% vote test" and the "10% value test," respectively).

Fourth, no more than 25% (or, beginning January 1, 2018, 20%) of the value of our total assets may consist of the securities of one or more TRSs.

Fifth, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test (the "25%

securities test”).
Sixth, not more than 25% of the value of our total assets may be represented by debt instruments of “publicly offered REITs” to the extent those debt instruments would not be real estate assets but for the inclusion of debt instruments of “publicly offered REITs” in the meaning of real estate assets for taxable years beginning after December 31, 2015, as described above.

For purposes of these asset tests, we are treated as holding our proportionate share of our operating partnership's assets. For purposes of the 5% asset test, the 10% vote test and the 10% value test, the term "securities" does not include stock in another REIT, equity or debt securities of a qualified REIT subsidiary or TRS, mortgage loans or MBS that constitute real estate assets, or equity interests in a partnership. For purposes of the 10% value test, the term "securities" does not include:

- "straight debt" securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors. "Straight debt" securities do not include any securities issued by a partnership or a corporation in which we or any "controlled TRS" hold non-"straight" debt securities that have an aggregate value of more than 1% of the issuer's outstanding securities. However, "straight debt" securities include debt subject to the following contingencies:

- a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer's debt obligations held by us exceeds $1 million and no more than twelve months of unaccrued interest on the debt obligations can be required to be prepaid; and

- a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice;

- any loan to an individual or an estate;

- any "section 467 rental agreement," other than an agreement with a related party tenant;

- any obligation to pay "rents from real property;"

- certain securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity;

- any security (including debt securities) issued by another REIT;

- any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes in which we are a partner to the extent of our proportionate interest in the equity and certain debt securities issued by that partnership; or

- any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in "— Gross Income Tests."

For purposes of the 10% value test, our proportionate share of the assets of a partnership is our proportionate interest in any securities issued by the partnership, without regard to the securities described in the last two bullet points above.

As discussed above under "— Gross Income Tests," we intend to acquire re-performing, and non-performing mortgage loans for substantially less than their face amount. Under the applicable Treasury Regulation (referred to as the "loan apportionment regulation"), if a mortgage loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (i) the date we agreed to acquire or originate the mortgage loan or (ii) in the event of a significant modification, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the mortgage loan will also likely be a non-qualifying asset for purposes of the 75% asset test. Revenue Procedure 2014-51 provides a safe harbor under which the IRS has stated that it will not challenge a REIT's treatment of a mortgage loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the

mortgage loan on the date of the relevant quarterly REIT asset testing date or (ii) the greater of (x) the fair market value of the real property securing the loan on the date of the relevant quarterly REIT asset testing date or (y) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan. Under the safe harbor, when the current value of a mortgage loan exceeds both the current fair market value of the real property that secures the loan and the fair market value of the real property that secures the loan, determined as of the date we committed to acquire or originate the loan, a portion of the mortgage loan will be treated as a nonqualifying asset. We do not anticipate that the value of our distressed mortgage loans will exceed the current value of the real property securing the loans.

We may in the future enter into repurchase agreements under which we nominally sell certain of our assets to a counterparty and simultaneously entered into an agreement to repurchase the sold assets in exchange for a purchase price that reflects a financing charge. Based on positions the IRS has taken in analogous situations, we believe that these transactions would be treated as secured debt and that we would be treated for REIT asset and income test purposes as the owner of the assets that would be the subject of such agreements notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own our assets subject to sale and repurchase agreements during the term of such agreements, in which case we could fail to qualify as a REIT.

Derivative instruments generally are not qualifying assets for purposes of the 75% asset test. Thus, interest rate swaps, futures contracts, and other similar instruments that are used in "hedging transactions" as defined in "— Hedging Transactions," are non-qualifying assets for purposes of the 75% asset test.

As discussed above, we may invest opportunistically in other types of mortgage-related assets. To the extent we invest in such assets, we intend to do so in a manner that will enable us to satisfy each of the asset tests described above. However, we cannot assure you that we will be able to satisfy the asset tests described above. We will monitor the status of our assets for purposes of the various asset tests and seek to manage our portfolio to comply at all times with such tests. No assurance, however, can be given that we will continue to be successful in this effort. In this regard, to determine our compliance with these requirements, we will have to value our investment in our assets to ensure compliance with the asset tests. Although we seek to be prudent in making these estimates, no assurances can be given that the IRS might not disagree with these determinations and assert that a different value is applicable, in which case we might not satisfy the 75% asset test and the other asset tests and, thus, would fail to qualify as a REIT.

If we fail to satisfy the asset tests at the end of a calendar quarter, we will not lose our REIT qualification so long as:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets.

If we did not satisfy the condition described in the second item, above, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

If we violate the 5% asset test, the 10% vote test or the 10% value test described above at the end of any calendar quarter, we will not lose our REIT qualification if (i) the failure is de minimis (up to the lesser of 1% of the total value of our assets or $10 million) and (ii) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure. In the event of a more than de minimis failure of any of the asset tests, as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT qualification if we (i) dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure, (ii) file a schedule with the IRS describing the assets that caused such failure in accordance with regulations promulgated by the Secretary of the U.S. Treasury and (iii) pay a tax equal to the greater of $50,000 or the product of the highest U.S. federal corporate tax rate (currently, 35%) and the net income from the non-qualifying assets during the period in which we failed to satisfy the asset tests. If these relief provisions are inapplicable to a particular set of circumstances involving us, we will fail to qualify as a REIT.

TABLE OF CONTENTS

We believe that the assets that we may hold will satisfy the foregoing asset test requirements. We will monitor the status of our assets and our future acquisition of assets to ensure that we comply with those requirements, but we cannot assure you that we will be successful in this effort. No independent appraisals will be obtained to support our estimates of and conclusions as to the value of our assets and securities, or in many cases, the real estate collateral for the mortgage loans that support our assets. Moreover, the values of some assets may not be susceptible to a precise determination. As a result, no assurance can be given that the IRS will not contend that our ownership of securities and other assets violates one or more of the asset tests applicable to REITs.

Distribution Requirements

Each taxable year, we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our stockholders in an aggregate amount at least equal to:

- the sum of

  90% of our "REIT taxable income," computed without regard to the dividends paid deduction and our net capital gain, and

  90% of our after-tax net income, if any, from foreclosure property,

minus

- the sum of certain items of non-cash income.

We must make such distributions in the taxable year to which they relate, or in the following taxable year if either (i) we declare the distribution before we timely file our U.S. federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration or (ii) we declare the distribution in October, November or December of the taxable year, payable to stockholders of record on a specified day in any such month, and we actually pay the dividend before the end of January of the following year. The distributions under clause (i) are taxable to the stockholders in the year in which paid, and the distributions in clause (ii) are treated as paid on December 31 of the prior taxable year. In both instances, these distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

We will pay U.S. federal income tax on taxable income, including net capital gain, that we do not distribute to stockholders. Furthermore, if we fail to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for such year,
- 95% of our REIT capital gain income for such year, and
- any undistributed taxable income from prior periods, we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute.

We may elect to retain and pay income tax on the net long term capital gain we recognize in a taxable year. See "— Taxation of U.S. Holders — Taxation of Taxable U.S. Holders on Distributions on Shares." If we so elect, we will be treated as having distributed any such retained amount for purposes of the REIT distribution requirements and the 4% nondeductible excise tax described above.

We intend to make timely distributions in the future sufficient to satisfy the annual distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax.

It is possible that, from time to time, we may experience timing differences between the actual receipt of cash, including distributions from our subsidiaries, and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. Possible examples of those timing differences include the following:

- If we sell property at a loss to a related party, including a TRS, such loss may be suspended until the TRS disposes of the property to an unrelated buyer.

TABLE OF CONTENTS

- Because we may deduct capital losses only to the extent of our capital gains, we may have taxable income that exceeds our economic income.

- We will recognize taxable income in advance of the related cash flow with respect to our investments that are deemed to have original issue discount. We generally must accrue original issue discount based on a constant yield method that takes into account projected prepayments but that defers taking into account credit losses until they are actually incurred.

- If we acquire distressed mortgage loans and significantly modify those loans, we would recognize gain, without the receipt of any cash, on the resulting deemed exchange equal to the difference between the adjusted issue price of the modified loan (which will generally be the face amount of the modified loan) and our adjusted tax basis in the original loan. Because we intend to acquire distressed mortgage loans at a significant discount, our adjusted tax basis in a distressed mortgage loan typically will be significantly lower than the adjusted issue price of the modified loan, which would result in our recognizing "phantom" income if we significantly modify the loan. We intend to significantly modify our distressed mortgage loans only on an opportunistic or selective basis.

- We expect to foreclose on a portion of our non-performing mortgage loans, and we may engage in foreclosures or other transactions that result in the conversion of such loans to real property. Such transactions could also give rise to taxable income without a corresponding receipt of cash.

- We may acquire investments that are treated as having "market discount" for U.S. federal income tax purposes, because the investments are debt instruments that we acquire for an amount less than their principal amount. We do not intend to elect to recognize market discount currently. Under the market discount rules, we may be required to treat portions of gains on sale of market discount bonds as ordinary income and may be required to include some amounts of principal payments received on market discount bonds as ordinary income. The recognition of market discount upon receipt of principal payments results in an acceleration of the recognition of taxable income to periods prior to the receipt of the related economic income. Further, to the extent that such an investment does not fully amortize according to its terms, we may never receive the economic income attributable to previously recognized market discount.

Although several types of non-cash income are excluded in determining the annual distribution requirement, we will incur corporate income tax and/or the 4% nondeductible excise tax with respect to those non-cash income items if we do not distribute those items on a current basis. As a result of the foregoing, we may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds, sell assets or make taxable distributions of our shares or debt securities.

We may satisfy the 90% distribution test with taxable distributions of our shares or debt securities. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by taxpayers whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS issued a revenue procedure creating a temporary safe harbor authorizing publicly traded REITs to make elective cash/shares dividends, but that safe harbor has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and shares. We have no current intention to make a taxable dividend payable in cash and our shares.

Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying "deficiency dividends" to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest and may be required to pay a penalty to the IRS based upon the amount of any deduction we take for deficiency dividends.

Recordkeeping Requirements

We must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request, on an annual basis, information from our stockholders designed to disclose the actual ownership of our outstanding shares. We intend to comply with these requirements.

TABLE OF CONTENTS

Failure to Qualify

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in "— Gross Income Tests" and "— Asset Tests."

If we fail to qualify as a REIT in any taxable year, and no relief provision applies, we would be subject to U.S. federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts paid out to stockholders. In fact, we would not be required to distribute any amounts to stockholders in that year. In such event, to the extent of our current or accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income. Subject to certain limitations of the U.S. federal income tax laws, corporate stockholders might be eligible for the dividends received deduction and stockholders taxed at individual rates might be eligible for the reduced U.S. federal income tax rate of 20% on such dividends. Unless we qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances we would qualify for such statutory relief.

Taxable Mortgage Pools and Excess Inclusion Income

An entity, or a portion of an entity, may be classified as a TMP under the Code if (i) substantially all of its assets consist of debt obligations or interests in debt obligations, (ii) more than 50% of those debt obligations are real estate mortgages or interests in real estate mortgages as of specified testing dates, (iii) the entity has issued debt obligations (liabilities) that have two or more maturities, and (iv) the payments required to be made by the entity on its debt obligations (liabilities) "bear a relationship" to the payments to be received by the entity on the debt obligations that it holds as assets. Under Treasury Regulations, if less than 80% of the assets of an entity (or a portion of an entity) consist of debt obligations, these debt obligations are considered not to comprise "substantially all" of its assets, and therefore the entity would not be treated as a TMP. Our future financing and securitization arrangements may give rise to TMPs, with the consequences as described below.

Where an entity, or a portion of an entity, is classified as a TMP, it is generally treated as a taxable corporation for U.S. federal income tax purposes. In the case of a REIT, or a portion of a REIT, or a disregarded subsidiary of a REIT, that is a TMP, however, special rules apply. We may enter into transactions that could result in us or a portion of our assets being treated as a TMP for U.S. federal income tax purposes. Specifically, we may securitize our assets and such securitizations may result in us owning interests in a TMP. If we do not own 100% of the equity in our operating partnership, we would be precluded from holding equity interests in such a securitization through our operating partnership. Accordingly, we would likely enter into such transactions through a Subsidiary REIT owned by our operating partnership and will be precluded from selling to outside investors equity interests in such securitizations or from selling any debt securities issued in connection with such securitizations that might be considered to be equity interests for U.S. federal income tax purposes.

If a REIT owns, directly or indirectly through one or more qualified REIT subsidiaries or other entities that are disregarded as a separate entity for U.S. federal income tax purposes 100% of the equity interests in the TMP, the TMP will be a qualified REIT subsidiary and, therefore, ignored as an entity separate from the REIT for U.S. federal income tax purposes and would not generally affect the tax qualification of the REIT. Rather, the consequences of the TMP classification would generally, except as described below, be limited to the REIT's stockholders.

The U.S. Treasury has not yet issued regulations to govern the treatment of stockholders of a REIT, a portion of which is a TMP, as described below. A portion of the REIT's income from the TMP arrangement, which might be non-cash accrued income, however, will be treated as "excess inclusion income."

The REIT's excess inclusion income, including any excess inclusion income from a residual interest in a REMIC, would be allocated among its stockholders. A stockholder's share of excess inclusion income (i) would not be allowed to be offset by any net operating losses otherwise available to the stockholder, (ii) would be subject to tax as unrelated business taxable income in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax, and (iii) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction under any otherwise applicable income tax treaty, to the extent allocable to most types of foreign stockholders. See "— Taxation of U.S. Holders" and "— Taxation of Non-U.S. Holders." Under IRS guidance, to the extent that excess inclusion income is allocated from a TMP to a tax-exempt stockholder of a REIT that is not subject to unrelated business income tax (such as government entities), the REIT will be subject to tax on this income at the highest applicable corporate tax rate (currently 35%). In that case, the REIT could reduce distributions to such stockholder by the amount of such tax paid by the REIT attributable to such stockholder's ownership. Treasury Regulations provide that such a reduction in distributions would not give rise to a preferential dividend that could adversely affect the REIT's compliance with its distribution requirements. See "— Distribution Requirements." Our charter contemplates that any tax imposed on us in these circumstances may to the extent feasible reduce distributions to the stockholder whose status caused that tax to be imposed, or we may bear such tax as a general corporate expense.

The manner in which excess inclusion income is calculated is not clear under current law. As required by IRS guidance, we intend to make such determinations based on what we believe to be a reasonable method. However, there can be no assurance that the IRS will not challenge our method of making any such determinations. If the IRS were to disagree with any such determinations made or with the method used by us, the amount of any excess inclusion income required to be taken into account by one or more stockholders (as described above) could be significantly increased. Tax-exempt investors, foreign investors and taxpayers with net operating losses should carefully consider the tax consequences described above, and are urged to consult their tax advisors.

Taxation of Our Operating Partnership

Our operating partnership currently is treated as a partnership for tax purposes.

Under the Code, a partnership generally is not subject to U.S. federal income tax, but is required to file a partnership tax information return each year. In general, the character of each partner's share of each item of income, gain, loss, deduction, credit, and tax preference is determined at the partnership level. Each partner is then allocated a distributive share of such items in accordance with the partnership agreement and is required to take such items into account in determining such partner's income. Each partner includes such amount in income for any taxable year of the partnership ending within or with the taxable year of the partner, without regard to whether the partner has received or will receive any cash distributions from the partnership. Cash distributions, if any, from a partnership to a partner generally are not taxable unless and to the extent they exceed the partner's basis in its partnership interest immediately before the distribution. Any amounts in excess of such tax basis will generally be treated as a sale or exchange of such partner's interest in the partnership.

As noted above, for purposes of the REIT income and asset tests, we are treated as receiving or holding our proportionate share of our operating partnership's income and assets, respectively. We control, and intend to continue to control, our operating partnership and intend to operate it consistently with the requirements for our qualification as a REIT.

We may issue equity compensation to employees in the form of interests in our operating partnership that provide for capital gain treatment to the employees but do not generate a corresponding deduction for our operating partnership.

The discussion above assumes that our operating partnership is treated as a "partnership" for U.S. federal income tax purposes. Generally, a domestic unincorporated entity with two or more partners is treated as a partnership for U.S. federal income tax purposes unless it affirmatively elects to be treated as a corporation. However, certain "publicly traded partnerships" are treated as corporations for U.S. federal income tax purposes. We intend to comply with one or more exceptions to treatment of our operating partnership as a corporation under the publicly traded partnership rules. Failure to qualify for such an exception would prevent us from qualifying as a REIT.

TABLE OF CONTENTS

Taxation of U.S. Holders

The term “U.S. holder” means a beneficial owner of our shares of common stock that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any of its States or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- any trust if (i) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in place to be treated as a U.S. person.

If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our shares of common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership and certain determinations made at the partner level. If you are a partner in a partnership holding our shares of common stock, you should consult your tax advisor regarding the consequences of the purchase, ownership and disposition of our shares of common stock by the partnership.

Taxation of Taxable U.S. Holders on Distributions on Shares

As long as we qualify as a REIT, a taxable U.S. holder must generally take into account as ordinary income distributions made out of our current or accumulated earnings and profits that we do not designate as capital gain dividends or retained long-term capital gain. A U.S. holder will not qualify for the dividends received deduction generally available to corporations. In addition, dividends paid to a U.S. holder generally will not qualify for the 20% tax rate for “qualified dividend income.”

The maximum tax rate for qualified dividend income received by taxpayers taxed at individual rates is 20%. Qualified dividend income generally includes dividends paid to U.S. holders taxed at individual rates by domestic C corporations and certain qualified foreign corporations. Because we are not generally subject to U.S. federal income tax on the portion of our REIT taxable income distributed to our stockholders (see “— Taxation of Our Company” above), our dividends generally will not be eligible for the 20% rate on qualified dividend income.

As a result, our ordinary REIT dividends will be taxed at the higher tax rate applicable to ordinary income. Currently, the highest marginal individual income tax rate on ordinary income is 39.6%. However, the 20% tax rate for qualified dividend income will apply to our ordinary REIT dividends (i) attributable to dividends received by us from certain non-REIT corporations (e.g., dividends from any domestic TRSs), (ii) to the extent attributable to income upon which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income) and (iii) attributable to income in the prior taxable year from the sales of “built-in gain” property acquired by us from C corporations in carryover basis transactions (less the amount of corporate tax on such income). In general, to qualify for the reduced tax rate on qualified dividend income, a U.S. holder must hold our shares for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our shares of common stock become ex-dividend. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on dividends received from us.

A U.S. holder generally will take into account distributions that we properly designate as capital gain dividends as long-term capital gain without regard to the period for which the U.S. holder has held our shares of common stock, to the extent that they do not exceed our actual net capital gain for the taxable year and, for taxable years beginning after December 31, 2015, do not exceed our dividends paid for the taxable year, including dividends paid the following year that are treated as paid in the current year. A corporate U.S. holder may, however, be required to treat up to 20%

of certain capital gain dividends as ordinary income.

We may elect to retain and pay income tax on the net long-term capital gain that we recognize in a taxable year. In that case, to the extent we designate such amount on a timely notice to such stockholder, a U.S. holder would be taxed on its proportionate share of our undistributed long-term capital gain. The U.S. holder would receive a credit or refund for its proportionate share of the tax we paid. The U.S. holder would increase the basis in its shares of common stock by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the tax we paid.

A U.S. holder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the distribution does not exceed the adjusted basis of the U.S. holder's shares of common stock. Instead, the distribution will reduce the adjusted basis of such shares of common stock. A U.S. holder will recognize a distribution in excess of both our current and accumulated earnings and profits and the U.S. holder's adjusted basis in his or her shares of common stock as long-term capital gain, or short-term capital gain if the shares of common stock have been held for one year or less, assuming the shares of common stock are a capital asset in the hands of the U.S. holder. In addition, if we declare a distribution in October, November or December of any year that is payable to a U.S. holder of record on a specified date in any such month, such distribution shall be treated as both paid by us and received by the U.S. holder on December 31 of such year, provided that we actually pay the distribution during January of the following calendar year, as described in "— Distribution Requirements."

Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses. Instead, these losses are generally carried over by us for potential offset against our future income.

Taxable distributions from us and gain from the disposition of our shares of common stock will not be treated as passive activity income and, therefore, a U.S. holder generally will not be able to apply any "passive activity losses," such as losses from certain types of limited partnerships in which such U.S. holder is a limited partner, against such income. In addition, taxable distributions from us and gain from the disposition of our shares of common stock generally will be treated as investment income for purposes of the investment interest limitations. We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain.

We may recognize taxable income in excess of our economic income, known as phantom income, in the first years that we hold certain investments, and experience an offsetting excess of economic income over our taxable income in later years. As a result, U.S. holders at times may be required to pay U.S. federal income tax on distributions that economically represent a return of capital rather than a dividend. These distributions would be offset in later years by distributions representing economic income that would be treated as returns of capital for U.S. federal income tax purposes. Taking into account the time value of money, this acceleration of U.S. federal income tax liabilities may reduce a U.S. holder's after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income. For example, if an investor with a 30% tax rate purchases a taxable bond with an annual interest rate of 10% on its face value, the investor's before-tax return on the investment would be 10% and the investor's after-tax return would be 7%. However, if the same investor purchased our common stock at a time when the before-tax rate of return was 10%, the investor's after-tax rate of return on such shares of common stock might be somewhat less than 7% as a result of our phantom income. In general, as the ratio of our phantom income to our total income increases, the after-tax rate of return received by a taxable U.S. holder will decrease.

If excess inclusion income from a TMP or REMIC residual interest is allocated to any U.S. holder, that income will be taxable in the hands of the U.S. holder and would not be offset by any net operating losses of the U.S. holder that would otherwise be available. See "— Taxable Mortgage Pools and Excess Inclusion Income."

Taxation of Taxable U.S. Holders on the Disposition of Shares

In general, a U.S. holder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of our shares of common stock as long-term capital gain or loss if the U.S. holder has held such shares of common stock for more than one year and otherwise as short-term capital gain or loss.

In general, a U.S. holder will realize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. holder's adjusted tax basis. A holder's adjusted tax basis generally will equal the U.S. holder's acquisition cost, increased by the excess of net capital gains deemed distributed to the U.S. holder (discussed above) less tax deemed paid by such U.S. holder on such gains and reduced by any returns of capital. However, a U.S. holder must treat any loss upon a sale or exchange of shares of common stock held by such holder for six months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us that such U.S. holder treats as long term capital gain. All or a portion of any loss that a U.S. holder realizes upon a taxable disposition of our shares of common stock may be disallowed if the U.S. holder purchases our shares of common stock (or substantially similar shares of common stock) within 30 days before or after the disposition.

Capital Gains and Losses

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The maximum tax rate on long-term capital gain applicable to U.S. holders taxed at individual rates is 20% for sales and exchanges of assets held for more than one year. The maximum tax rate on long-term capital gain from the sale or exchange of "section 1250 property," or depreciable real property, is 25%, which applies to the lesser of the total amount of the gains or the accumulated depreciation on the Section 1250 property. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on gain from the sale of our shares of common stock.

With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are deemed to distribute, we will designate whether such a distribution is taxable to U.S. holders taxed at individual rates at a 20% or 25% rate. The highest marginal individual income tax rate currently is 39.6%. Thus, the tax rate differential between capital gain and ordinary income for those taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses, including capital losses recognized upon the disposition of our shares. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Information Reporting Requirements and Withholding

We or the applicable withholding agent will report to U.S. holders and to the IRS the amount and the tax character of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a U.S. holder may be subject to backup withholding at a rate of 28% with respect to distributions unless such holder:

- is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A U.S. holder who does not provide the applicable withholding agent with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. holder's income tax liability. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the U.S. holder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. U.S. holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding. In addition, the applicable withholding agent may be required to withhold a portion of distributions to any U.S. holders who fail to certify their U.S. status.

TABLE OF CONTENTS

Taxation of Non-U.S. Holders

The term "non-U.S. holder" means a beneficial owner of our shares of common stock that is not a U.S. holder or a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes). The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign holders are complex. This section is only a summary of such rules. We urge non-U.S. holders to consult their tax advisors to determine the impact of U.S. federal, state and local income tax laws on ownership of our shares of common stock, including any reporting requirements.

For most non-U.S. holders, investment in a REIT that invests principally in mortgage loans and MBS is not the most tax-efficient way to invest in such assets. That is because receiving distributions of income derived from such assets in the form of REIT dividends subjects most non-U.S. holders to withholding taxes that direct investment in those asset classes, and the direct receipt of interest and principal payments with respect to them, would not.

A non-U.S. holder that receives a distribution from us that is not attributable to gain from our sale or exchange of "United States real property interests," as defined below, and that we do not designate as a capital gain dividend or retained capital gain will recognize ordinary income to the extent that we pay the distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply unless an applicable tax treaty reduces or eliminates the tax. Reduced treaty rates are not available to the extent that income is attributable to our excess inclusion income allocable to the non-U.S. holder. See "— Taxable Mortgage Pools and Excess Inclusion Income." If a distribution is treated as effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the distribution will not incur the 30% withholding tax, but the non-U.S. holder generally will be subject to U.S. federal income tax on the distribution at graduated rates, in the same manner as U.S. holders are taxed on distributions and also may be subject to the 30% branch profits tax in the case of a corporate non-U.S. holder. In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our shares of common stock. It is expected that the applicable withholding agent will withhold U.S. income tax at the rate of 30% on the gross amount of any distribution that we do not designate as a capital gain distribution or retained capital gain and is paid to a non-U.S. holder unless either:

- a lower treaty rate applies and the non-U.S. holder files with the applicable withholding agent an IRS Form W-8BEN or IRS Form W-8BEN-E evidencing eligibility for that reduced rate, or

- the non-U.S. holder files with the applicable withholding agent an IRS Form W-8ECI claiming that the distribution is effectively connected income.

Capital gain dividends received or deemed received by a non-U.S. holder from us that are not attributable to gain from our sale or exchange of "United States real property interests," as defined below, are generally not subject to U.S. federal income or withholding tax, unless either (1) the non-U.S. holder's investment in our shares of common stock is effectively connected with a U.S. trade or business conducted by such non-U.S. holder (in which case the non-U.S. holder will be subject to the same treatment as U.S. holders with respect to such gain) or (2) the non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the U.S. (in which case the non-U.S. holder will be subject to a 30% tax on the individual's net capital gain for the year).

A non-U.S. holder will not incur tax on a distribution on the shares of common stock in excess of our current and accumulated earnings and profits if the excess portion of the distribution does not exceed the adjusted tax basis of its shares of common stock. Instead, the excess portion of the distribution will reduce such non-U.S. holder's adjusted tax basis of its shares of common stock. A non-U.S. holder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the adjusted basis of its shares of common stock, if the non-U.S. holder otherwise would be subject to tax on gain from the sale or disposition of its shares of common stock, as described below. Because we generally cannot determine at the time we make a distribution whether the distribution will exceed our current and accumulated earnings and profits, it is expected that the applicable withholding agent normally will

44

withhold tax on the entire amount of any distribution at the same rate applicable to withholding on a dividend. However, a non-U.S. holder may obtain a refund of amounts that the applicable withholding agent withheld if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

For any year in which we qualify as a REIT, a non-U.S. holder may incur tax on distributions that are attributable to gain from our sale or exchange of "United States real property interests" under special provisions of the U.S. federal income tax laws known as "FIRPTA." The term "United States real property interests" includes interests in real property and shares in corporations at least 50% of whose assets consist of interests in real property. The term "United States real property interests" generally does not include mortgage loans or MBS. Under the FIRPTA rules, a non-U.S. holder is taxed on distributions attributable to gain from sales of United States real property interests as if the gain were effectively connected with a U.S. business of the non-U.S. holder. A non-U.S. holder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate holder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. Unless a non-U.S. holder qualifies for the exception described in the next paragraph, or is a qualified shareholder or a qualified foreign pension fund (both as defined below), the applicable withholding agent must withhold 35% of any such distribution that we could designate as a capital gain dividend. A non-U.S. holder may receive a credit against such holder's tax liability for the amount withheld.

Capital gain distributions on our shares of common stock that are attributable to our sale of real property will be treated as ordinary dividends, rather than as gain from the sale of a United States real property interest, if (i) our shares of common stock are "regularly traded" on an established securities market in the United States and (ii) the non-U.S. holder does not own more than 10% of our shares of common stock during the one-year period preceding the distribution date. As a result, non-U.S. holders generally would be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends. We believe that our common stock is treated as being regularly traded on an established securities market in the United States. If our common stock is not regularly traded on an established securities market in the United States or the non-U.S. holder owned more than 10% of our common stock at any time during the one-year period prior to the distribution, capital gain distributions that are attributable to our sale of real property would be subject to tax under FIRPTA. Moreover, if a non-U.S. holder disposes of our common stock during the 30-day period preceding a dividend payment, and such non-U.S. holder (or a person related to such non-U.S. holder) acquires or enters into a contract or option to acquire our common stock within 61 days of the 1st day of the 30 day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a United States real property interest capital gain to such non-U.S. holder, then such non-U.S. holder will be treated as having United States real property interest capital gain in an amount that, but for the disposition, would have been treated as United States real property interest capital gain.

In addition, distributions to certain non-U.S. publicly traded shareholders that meet certain record-keeping and other requirements ("qualified shareholders") are exempt from FIRPTA, except to the extent owners of such qualified shareholders that are not also qualified shareholders own, actually or constructively, more than 10% of our common stock. Furthermore, distributions to "qualified foreign pension funds" or entities all of the interests of which are held by "qualified foreign pension funds" are exempt from FIRPTA. Non-U.S. holders should consult their tax advisors regarding the application of these rules.

A non-U.S. holder generally will not incur tax under FIRPTA with respect to gain realized upon a disposition of our shares of common stock as long as we are not a United States real property holding corporation during a specified testing period. If at least 50% of a REIT's assets are United States real property interests, then the REIT will be a United States real property holding corporation. We may be a United States real property holding corporation based on our investment strategy. In that case, gains from the sale of our shares of common stock by a non-U.S. holder could be subject to a FIRPTA tax. However, a non-U.S. holder generally would not incur tax under FIRPTA on gain from the sale of our shares of common stock if we were a "domestically controlled qualified investment entity." A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% in value of its shares are held directly or indirectly by non-U.S. persons.

If our common stock is regularly traded on an established securities market, an additional exception to the tax under FIRPTA will be available with respect to our common stock, even if we do not qualify as a domestically controlled qualified investment entity at the time the non-U.S. holder sells our common stock. Under that exception, the gain from such a sale by such a non-U.S. holder will not be subject to tax under FIRPTA if (i) our common stock is treated as being regularly traded under applicable Treasury Regulations on an established securities market and (ii) the non-U.S. holder owned, actually or constructively, 10% or less of our common stock at all times during a specified testing period. As noted above, believe that our common stock is treated as being regularly traded on an established securities market in the United States. If the gain on the sale of our common stock were taxed under FIRPTA, a non-U.S. holder would be taxed on that gain in the same manner as U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals.

In addition, dispositions of our common stock by qualified shareholders are exempt from FIRPTA, except to the extent owners of such qualified shareholders that are not also qualified shareholders own, actually or constructively, more than 10% of our common stock. An actual or deemed disposition of our common stock by such shareholders may also be treated as a dividend. Furthermore, dispositions of our capital stock by "qualified foreign pension funds" or entities all of the interests of which are held by "qualified foreign pension funds" are exempt from FIRPTA. Non-U.S. holders should consult their tax advisors regarding the application of these rules.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. holder provided that the non-U.S. holder furnishes to the applicable withholding agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if the applicable withholding agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Payments of the net proceeds from a disposition or a redemption effected outside the United States by a non-U.S. holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established. Payment of the net proceeds from a disposition by a non-U.S. holder of shares of common stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the non-U.S. holder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. Non-U.S. holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

Legislative or Other Actions Affecting REITs

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, which may result in statutory changes as well as revisions to regulations and interpretations. Additionally, several of the tax considerations described herein are currently under review and are subject to change. Prospective stockholders are urged to consult with their own tax advisors regarding the effect of potential changes to the U.S. federal tax laws on an investment in our shares of common stock.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") imposes a 30% U.S. withholding tax on certain U.S. source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of

TABLE OF CONTENTS

property of a type which can produce U.S. source interest or dividends ("Withholdable Payments"), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a stockholder), unless such institution enters into an agreement with Treasury to collect and provide to Treasury certain information regarding U.S. financial account holders, including certain account holders that are foreign entities with U.S. owners, with such institution or otherwise complies with FATCA. FATCA also generally imposes a withholding tax of 30% on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. Under certain circumstances, a stockholder may be eligible for refunds or credits of such taxes.

These withholding and reporting requirements generally apply to U.S. source periodic payments and will apply to payments of gross proceeds from a sale or redemption made after December 31, 2018. If we determine withholding is appropriate with respect to a Withholdable Payment, we will withhold tax at the applicable statutory rate, and we will not pay any additional amounts in respect of such withholding. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. Prospective investors are urged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in our common stock.

State, Local and Foreign Taxes

We and/or our subsidiaries and common stockholders may be subject to taxation by various states, localities or foreign jurisdictions, including those in which we, our subsidiaries, or our common stockholders transact business, own property or reside. We or our subsidiaries may own properties located in numerous jurisdictions and may be required to file tax returns in some or all of those jurisdictions. The state, local and foreign tax treatment of us and our common stockholders may differ from the U.S. federal income tax treatment of us and our common stockholders described above. Consequently, common stockholders should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws upon an investment in our shares of common stock.

TABLE OF CONTENTS

LEGAL MATTERS

The validity of the common stock and certain other legal matters will be passed upon for us by Morrison & Foerster LLP, New York, New York.

EXPERTS

The consolidated financial statements of Great Ajax Corp. as of December 31, 2015 and 2014, and for the year ended December 31, 2015 and for the period from January 30, 2014 (date of inception) through December 31, 2014, included in the Annual Report on Form 10-K, have been incorporated by reference herein in reliance upon the report of Moss Adams LLP, independent registered public accounting firm, incorporated by reference herein and upon the authority of said firm 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 document we file with the SEC at the SEC's public reference room at 100 F Street, N.E. Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov. In addition, we maintain a website that contains information about us at www.great-ajax.com. The information found on, or otherwise accessible through, our website is not incorporated by reference into, and does not form a part of, this prospectus or any accompanying prospectus supplement or any other report or document we file with or furnish to the SEC.

We have filed with the SEC a registration statement on Form S-3, of which this prospectus is a part, including exhibits, schedules and amendments filed with, or incorporated by reference into, the registration statement, under the Securities Act, with respect to the shares registered hereby. This prospectus and any accompanying prospectus supplement do not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and the shares registered hereby, reference is made to the registration statement, including the exhibits to the registration statement. Statements contained in this prospectus and any accompanying prospectus supplement as to the contents of any contract or other document referred to in, or incorporated by reference into, this prospectus and any accompanying prospectus supplement are not necessarily complete and, where such contract or other document is an exhibit to the registration statement, each statement is qualified in all respects by the exhibit to which the reference relates. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined at the SEC's public reference room. Copies of all or a portion of the registration statement can be obtained from the public reference room of the SEC upon payment of prescribed fees. The registration statement of which this prospectus is a part is also available to you on the SEC's website.

TABLE OF CONTENTS

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" into this prospectus the information we file with the SEC, which means that we can disclose important business, financial and other information to you by referring you to other documents separately filed with the SEC. The information incorporated by reference is considered to be part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus and before the date that the offering of the shares by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

We incorporate by reference the following documents or information filed with the SEC:

- our Annual Report on Form 10-K, for the year ended December 31, 2015;
- our Current Report on Form 8-K filed with the SEC on March 1, 2016 (except with respect to item 7.01 therein);
- our definitive proxy statement for our annual meeting of shareholders held on June 3, 2015; and
- the description of our common stock contained in our Registration Statement on Form 8-A filed with the SEC on February 10, 2015.

We are also incorporating by reference additional documents that we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act: (i) after the date of the initial registration statement of which this prospectus is a part and prior to effectiveness of the registration statement and (ii) after the date of this prospectus and prior to the termination of the offering of the shares described in this prospectus. We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed above or filed in the future, that are not deemed "filed" with the SEC, including any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or certain exhibits furnished pursuant to Item 9.01 of Form 8-K.

We will provide copies of all documents incorporated into this prospectus by reference, without charge, upon oral request to our Secretary at the number listed below or in writing by first class mail to the address listed below.

Irving Potter
Great Ajax Corp.
9400 SW Beaverton-Hillsdale Hwy, Suite 131
Beaverton, Oregon 97005
503-505-5670

TABLE OF CONTENTS

10,000,740 Shares

Common Stock

PROSPECTUS

April 12, 2016

TABLE OF CONTENTS

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the expenses of the sale and distribution of the securities being registered pursuant to this registration statement, all of which are being borne by the registrant. All amounts other than the SEC registration fee have been estimated.

SEC registration fee	$ 17,660
Printing expenses	$ 61,000
Legal fees and expenses	$ 350,000
Accounting fees and expenses	$ 10,000
Miscellaneous expenses	$ 11,340
Total	$ 450,000

Item 15. Indemnification of Directors and Officers.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains a provision which eliminates our directors' and officers' liability to the maximum extent permitted by Maryland law.

Maryland law requires a Maryland corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that: (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty; (b) the director or officer actually received an improper personal benefit in money, property or services; or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a Maryland corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our charter authorizes us, to the maximum extent permitted by Maryland law, to obligate ourselves and our bylaws obligate us, to indemnify any present or former director or officer or any individual who, while a director or officer of our company and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any of the foregoing capacities and to pay or reimburse his or her

TABLE OF CONTENTS

reasonable expenses in advance of final disposition of a proceeding. Our charter and bylaws also permit us to indemnify and advance expenses to any individual who served a predecessor of our company in any of the capacities described above and any employees or agents of our company or a predecessor of our company.

We have entered into indemnification agreements with each of our executive officers and directors whereby we indemnify such executive officers and directors to the fullest extent permitted by Maryland law against all expenses and liabilities, subject to limited exceptions. These indemnification agreements also provide that upon an application for indemnity by an executive officer or director to a court of appropriate jurisdiction, such court may order us to indemnify such executive officer or director.

In addition, our directors and officers are indemnified for specified liabilities and expenses pursuant to the limited partnership agreement of our operating partnership.

Insofar as the foregoing provisions permit indemnification of directors, officer or persons controlling us for liability arising under the Securities Act, we have been informed that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 16. Exhibits.

See the Exhibit Index, which is incorporated herein by reference.

Item 17. Undertakings.

(a)

The undersigned registrant hereby undertakes:

(1)

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

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

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

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

provided, however, that paragraphs (a)(l)(i), (a)(l)(ii) and (a)(l)(iii) of this section do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2)

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

(3)

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

TABLE OF CONTENTS

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

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

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

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

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

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Beaverton, Oregon on April 12, 2016.

GREAT AJAX CORP.

By: /s/ Lawrence Mendelsohn
Lawrence Mendelsohn
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act this amendment to the registration statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ Lawrence Mendelsohn Lawrence Mendelsohn	Chairman and Chief Executive Officer (principal executive officer)	April 12, 2016
/s/ Glenn J. Ohl Glenn J. Ohl	Chief Financial Officer (principal financial officer and principal accounting officer)	April 12, 2016
* Steven L. Begleiter	Director	
* John C. Condas	Director	
* Jonathan Bradford Handley, Jr.	Director	
* Daniel Hoffman	Director	
* J. Kirk Ogren, Jr.	Director	
/s/ Russell Schaub Russell Schaub	President and Director	April 12, 2016

* By: /s/ Lawrence Mendelsohn
Lawrence Mendelsohn as
Attorney-in-Fact

II-4

TABLE OF CONTENTS

Exhibit No.	Description
3.1	Articles of Amendment and Restatement; incorporated by reference to Exhibit 3.1 to the registrant's registration statement on Form S-11 (No. 333-201369).
3.2	Amended and Restated Bylaws; incorporated by reference to Exhibit 3.2 to the registrant's registration statement on Form S-11 (No. 333-201369).
5.1*	Opinion of Morrison & Foerster LLP.
8.1	Opinion of Morrison & Foerster LLP as to tax matters.
10.1	Agreement of Limited Partnership of Great Ajax Operating Partnership LP; incorporated by reference to Exhibit 10.1 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.2	Amended and Restated Management Agreement dated as of October 27, 2015, among the registrant, Great Ajax Operating Partnership LP and Thetis Asset Management LLC; incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, as filed with the SEC on November 2, 2015.
10.3	Servicing Agreement dated as of July 8, 2014 by and among Gregory Funding LLC and the registrant and its affiliates Great Ajax Operating Partnership LP and Little Ajax II LLC; incorporated by reference to Exhibit 10.3 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.4	Form of Indemnification Agreement between registrant and each of its directors and officers; incorporated by reference to Exhibit 10.4 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.5	Assignment Agreement made as of July 8, 2014, by and between the entities identified on Exhibit A thereto and the registrant with respect to Little Ajax II LLC; incorporated by reference to Exhibit 10.5 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.6	2014 Director Equity Plan; incorporated by reference to Exhibit 10.6 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.7	Form of Restricted Stock Award; incorporated by reference to Exhibit 10.7 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.8	Registration Rights Agreement made and entered into as of July 8, 2014, by and among the registrant and FBR Capital Markets & Co., as the initial purchaser/placement agent ("FBR") for the benefit of FBR and certain purchasers of the registrant's common stock; incorporated by reference to Exhibit 10.8 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.9	Trademark License Agreement dated as of July 8, 2014 between the registrant and Aspen Yo LLC; incorporated by reference to Exhibit 10.9 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.10	Registration Rights Agreement made and entered into as of December 16, 2014, by and among the registrant and certain purchasers of the registrant's common stock; incorporated by reference to Exhibit 10.10 to the registrant's registration statement on Form S-11 (No. 333-201369).
10.11	Employment Agreement with Mary Doyle, Great Ajax Corp. Chief Financial Officer, dated March 29, 2016; incorporated by reference to Exhibit 10.11 to the registrant's Annual Report on Form 10-K as filed with the SEC on March 29, 2016.
21.1	List of subsidiaries; incorporated by reference to Exhibit 21.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2015.
23.1	Consent of Moss Adams LLP.
23.2*	Consent of Morrison & Foerster LLP (included in Exhibit 5.1).
23.3	Consent of Morrison & Foerster LLP (included in Exhibit 8.1).

TABLE OF CONTENTS

Exhibit No.	Description
24.1*	Power of Attorney (included on the signature page to the S-11 Registration Statement).
24.2*	Power of Attorney of Mr. Ogren.

*
Previously filed.

HTS motor, generator and synchronous condenser designs.

Since the HTS rotating machine field is relatively new, we believe we are building a particularly strong patent position in this area. A number of other companies have also filed, and in some instances have received, patents on various applications of HTS component and subsystem fabrication methods. If any existing or future patents cover any of these aspects of our operations, we may be required to obtain licenses under those patents.

Power Electronic Systems

We have received several patents and filed a significant number of additional patent applications on power quality and reliability systems, including the D-SMES concept. We have acquired a non-exclusive license from Argonne National Laboratory on a cryogenic connector for SMES applications. We believe we have a strong patent position in the SMES area, and have also filed a series of patents on our proprietary power electronic modules. We have licensed some of our patents specifically on SMES to third parties.

Trade Secrets

Some of the important technology used in our operations and products is not covered by any patent or patent application owned by or licensed to us. However, we take steps to maintain the confidentiality of this technology by requiring all employees and all consultants to sign confidentiality agreements and by limiting access to confidential information. However, no assurance can be given that these measures will prevent the unauthorized disclosure or use of that information. In addition, there is no assurance that others, including our competitors, will not independently develop the same or comparable technology that is one of our trade secrets.

Employees

As of July 31, 2003, we employed a total of 266 persons, 28 of whom have a Ph.D. in materials science, physics or related fields. None of our employees are represented by a labor union. Retaining our key employees is important for achieving our goals and we are committed to developing a working environment that motivates and rewards our employees. At the present time, we believe that we have good relations with our employees.

Table of Contents

Properties

We operate out of two facilities in Westborough, MA with a combined total of approximately 129,000 square feet of space. The Two Technology Drive facility in Westborough is under a lease that expires on May 31, 2009. The 121 Flanders Road facility is under a lease that expires on September 30, 2005.

On December 7, 2001, we completed construction and took occupancy of a company-owned 355,000-square-foot HTS wire manufacturing facility located at the Devens Commerce Center in Devens, MA.

We also operate out of facilities located in Middleton and New Berlin, WI with a combined total of approximately 83,000 square feet of space. The Middleton, WI facility comprises approximately 33,000 square feet of space in a building with a lease that expires on December 31, 2004. The New Berlin, WI facility comprises approximately 50,000 square feet of space under a lease that expires on September 30, 2011.

We decided to outsource our future requirements for LTS magnets used in our SMES systems, allowing us to focus on our core competency of integrating components for our commercial power quality and reliability systems. As a result, we ceased operations in a second building in Middleton, WI comprising approximately 27,000 square feet in March 2002.

Legal Proceedings

On December 10, 2002, we executed an engagement letter with TM Capital to provide financial advisory services to us. TM Capital advised us on various financing alternatives, including the $50 million secured debt financing transaction that we decided not to pursue on August 22, 2003. At such time, we also terminated our engagement with TM Capital. On September 12, 2003, representatives of TM Capital met with our management and asserted a claim that, upon the closing of this equity offering, we would owe TM Capital an amount equal to 5.5 percent of the proceeds of this offering and we would be obligated to issue to TM Capital warrants to purchase 5 percent of the aggregate number of shares of common stock that are issued in this offering. Although we do not believe that TM Capital is entitled to the fees that are asserted, we hope to resolve this matter amicably. However, there can be no assurance that we can resolve this matter amicably or, if litigation results, that we will be successful.

We are not involved in any legal proceedings other than routine litigation or related proceedings incidental to our business that we do not consider material.

Table of Contents

MANAGEMENT

The following table lists our directors and executive officers and their ages as of August 31, 2003:

Name	Age	Position
Gregory J. Yurek	56	Chairman of the Board, Chief Executive Officer and President
Kevin M. Bisson	42	Senior Vice President and Chief Financial Officer
Ross S. Gibson	44	Vice President and Chief Administrative Officer
Alexis P. Malozemoff	59	Executive Vice President and Chief Technical Officer
Charles W. Mayer	57	Vice President and General Manager, SuperMachines Business Unit
David Paratore	35	Senior Vice President and General Manager, AMSC Wires Business Unit
Thomas M. Rosa	50	Vice President of Finance and Accounting
Charles W. Stankiewicz	44	Vice President and General Manager, Power Electronic Systems Business Unit
Albert J. Baciocco, Jr.	72	Director
Peter O. Crisp	71	Director
Richard Drouin	71	Director
Gérard Menjon	54	Director
Andrew G.C. Sage, II	77	Director
John B. Vander Sande	59	Director
Frank Borman	75	Director

Gregory J. Yurek co-founded American Superconductor in 1987 and has been president since March 1989, chief executive officer since December 1989 and chairman of the board of directors since October 1991. Dr. Yurek also served as vice president and chief technical officer from August 1988 until March 1989 and as chief operating officer from March 1989 until December 1989. Prior to joining American Superconductor, Dr. Yurek was a professor of Materials Science and Engineering at MIT for 12 years. Dr. Yurek has been a director of American Superconductor since 1987.

Kevin M. Bisson joined American Superconductor in May 2003 as senior vice president and chief financial officer. Prior to joining American Superconductor, Mr. Bisson was vice president, controller and treasurer for Axcelis Technologies, Inc., a semiconductor equipment manufacturing company, from 2000 to 2003. From 1989 to 2000, Mr. Bisson held several senior financial positions with Hamilton Sundstrand, Hamilton Standard and Carrier Corporation, all units of United Technologies Corporation, a multi-national conglomerate.

Ross S. Gibson joined American Superconductor in July 1997 as vice president, Human Resources. From December 2000 to March 2001, Mr. Gibson was vice president of Human Resources at Workscape, a human resource management software company. From March 2001 to June 2001, Mr. Gibson was an independent management consultant. In July 2001, Mr. Gibson returned to American Superconductor as vice president and chief administrative officer. He is responsible for the strategic direction of corporate human resources, corporate governance, corporate services and general administration. Previously, Mr. Gibson was vice president, Human Resources and Administration, chief administrative officer for Cambridge NeuroScience, Inc., a development stage biotechnology company. During his 18 years in human resources and services, he also held positions at Lifeline Systems, Lotus Development and General Motors.

Alexis P. Malozemoff joined American Superconductor as vice president, Research and Development in January 1991 and was elected our chief technical officer in January 1993 and senior vice president in May 1998. In May 2003, Dr. Malozemoff was appointed executive vice president in addition to retaining the position of chief technical officer. Prior to joining American Superconductor, Dr. Malozemoff spent 19 years at IBM

in a variety of research and management positions, most recently as IBM s research coordinator for High Temperature Superconductivity.

Table of Contents

Charles W. Mayer joined American Superconductor in February 2002 as director of programs and product management for the SuperMachines business unit. In June 2003, Mr. Mayer was appointed vice president and general manager of the SuperMachines business unit. From 1998 to 2001, Mr. Mayer was director of Nuclear Projects at Exelon, an energy services company. Prior to Exelon, Mr. Mayer completed a 28 year career in the U.S. Navy.

David Paratore joined American Superconductor in November 2000 as vice president, Strategic Business Development. From December 2000 to November 2001, Mr. Paratore ran the company s new Integrated Electronics business in Milwaukee, a business that was later integrated into AMSC s Power Electronic Systems business in March 2002. In November 2001, Mr. Paratore was appointed to position of vice president and general manager of the SuperMachines Business Unit. In June 2003, Mr. Paratore was appointed senior vice president and general manager, AMSC Wires Business Unit. In 2000, Mr. Paratore was an account executive for GROWTTH® Consulting where he provided operations, distribution and new product introduction consulting services to leading companies in the consumer product and industrial manufacturing industries. Prior to GROWTTH, Mr. Paratore held increasingly senior positions with Pratt & Whitney, a division of United Technologies Corp, and most recently, he was the general manager responsible for the startup of the V2500 aircraft engine overhaul facility.

Thomas M. Rosa joined American Superconductor in October 1992 as corporate controller and was elected our chief accounting officer and assistant secretary in July 1998. In May 2003, Mr. Rosa was appointed vice president of Finance and Accounting. Prior to joining American Superconductor, Mr. Rosa spent ten years in a variety of financial management positions at Prime Computer, Wang Laboratories, Lockheed Sanders and most recently, was the division controller at Prime Computer.

Charles W. Stankiewicz joined American Superconductor in July 1998 as general manager of our SMES Business Unit, based in Madison, Wisconsin. In March 2002, Mr. Stankiewicz was appointed to his current position as general manager of the Power Electronic Systems business unit. Prior to joining American Superconductor, Mr. Stankiewicz held senior positions for ten years at ABB, a Swiss industrial conglomerate. From 1980 to 1989, Mr. Stankiewicz was with Westinghouse Electric as a regional service manager and special sales representative for the power generation business, focused on major electric utilities.

Albert J. Baciocco, Jr. has been President of The Baciocco Group, Inc., a technical and management consulting practice in strategic planning, technology investment and implementation, since 1987. Preceding this, he served in the U.S. Navy for 34 years, principally within the nuclear submarine force and directing the Department of the Navy research and technology development enterprise, achieving the rank of Vice Admiral. Admiral Baciocco serves on several boards and committees of government, industry and academe. During the past 16 years, he has served as a director of several public corporations and currently serves as a director of several private companies. He is also a trustee of the South Carolina Research Authority, a director of the University of South Carolina Research Foundation and a director and Vice Chair of the Foundation for Research Development of the Medical University of South Carolina. Admiral Baciocco has been a director of the Company since April 1997.

Peter O. Crisp has been Vice Chairman of Rockefeller Financial Services, Inc. since December 1997. From 1969 to 1997, he was a General Partner of Venrock Associates, a venture capital firm based in New York. Mr. Crisp is also a director of Thermo Electron Corporation and United States Trust Company, as well as other private companies. Mr. Crisp has been a director of the Company since 1987.

Richard Drouin is counsel at McCarthy Tétrault, a Canadian law firm, since 2001 and was a partner from December 1995 to 2001. Mr. Drouin was the Chairman and Chief Executive Officer of Hydro-Quebec, a public electric utility based in Canada, from April 1988 to September 1995. Mr. Drouin is Chairman of the Board of Directors of Abitibi Consolidated, the world s largest newsprint manufacturer, and a director of Stelco Inc. and Nstein Technologies. He is also Chairman of the Board of Trustees of the North American Electric Reliability Council. Mr. Drouin has been a director of the Company since February 1996.

56

Gérard Menjon has been Executive Vice President, Development for Electricité de France (EDF), a French public electric utility, since March 2003. Mr. Menjon was an ERP project leader for EDF from February 2002 to March 2003, Executive Vice President and Head of the Research and Development Division of EDF from December 1994 to 2002 and was Senior Vice President, Business Development, of EDF from February 1992 to November 1994. Since May 2003, Mr. Menjon has also served as a director and Chairman of the Board of EDF Capital Investissement, S.A., a subsidiary of EDF. Mr. Menjon has been a director of the Company since April 1997.

Andrew G.C. Sage, II has been President of Sage Capital Corporation since 1974. Immediately prior to that time, he served as President of the investment banking firm of Lehman Brothers. Presently, Mr. Sage is Chairman of Robertson Ceco Corporation, a prefabricated metal buildings company, and a director of Tom s Foods, Inc. Throughout his career, Mr. Sage has served in board and executive positions for numerous public companies. Mr. Sage has been a director of the Company since April 1997.

John B. Vander Sande co-founded the Company. He has been a professor at MIT specializing in the microstructure of materials since 1971 and was Associate Dean and Acting Dean of Engineering at MIT from 1992 to 1999. He was the Executive Director of the University of Cambridge MIT Institute from 1999 to January 2003. Dr. Vander Sande has been a director of the Company since 1990.

Frank Borman has been President of Patlex Corporation (Patlex), a company engaged in enforcing and exploiting laser-related patents, since 1988. He also served as Chief Executive Officer and a director of Patlex from September 1995 until August 1996, as Chairman and Chief Executive Officer of Patlex from 1988 to December 1992, and as Chairman of AutoFinance Group, Inc. (AFG) from December 1992 to September 1995, during which period Patlex was a subsidiary of AFG. Mr. Borman served as Vice Chairman of the Board of Directors of Texas Air Corporation from 1986 to 1991. From 1969 to 1986, he served in various capacities for Eastern Airlines, including President, Chief Executive Officer and Chairman of the Board of Directors. Mr. Borman served in the United States Air Force from 1950 to 1970 and was commander of Apollo 8 in 1968. Mr. Borman has been a director of the Company since 1992. Mr. Borman is not standing for re-election at our 2003 Annual Meeting of Stockholders.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

Common Stock

Our authorized capital stock consists of 50,000,000 shares of common stock, $.01 par value per share. Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the outstanding shares of our common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared by our Board of Directors out of funds legally available therefor. Upon our liquidation, dissolution or winding-up, holders of our common stock are entitled to receive ratably our net assets available for distribution after the payment of all our debts and other liabilities. Holders of our common stock have no preemptive, subscription, redemption or conversion rights.

Rights Plan

In October 1998, we adopted a Rights Plan. Under the Rights Plan, we distributed one common stock purchase right as a dividend on each outstanding share of our common stock. The rights will expire on October 30, 2008, unless the rights are redeemed or exchanged before that time. Each right entitles the holder to purchase one share of our common stock at an exercise price of $60.00 per right, subject to adjustment.

The rights will be exercisable only if a person or group has acquired beneficial ownership of 15 percent or more of the outstanding shares of our common stock or commences a tender or exchange offer that would result in that person or group owning 15 percent or more of the outstanding shares of our common stock. If any person or group becomes the beneficial owner of 15 percent or more of the shares of our common stock, except in a tender or exchange offer for all shares at a fair price as determined by the outside members of our Board of Directors, each right not owned by the 15 percent stockholder will entitle its holder to purchase that number of shares of our common stock which equals the exercise price of the right divided by one-half of the market price of our common stock at the date of the occurrence of the event. In addition, if we are involved in a merger or other business combination transaction with another entity in which we are not the surviving corporation or in which our common stock is changed or converted, or if we sell or transfer 50 percent or more of our assets or earning power to another entity, each right will entitle its holder to purchase that number of shares of common stock of that other entity which equals the exercise price of the right divided by one-half of the market price of that common stock at the date of the occurrence of the event. We will generally be entitled to redeem the rights at $.001 per right at any time until the tenth business day following public announcement that a 15 percent stock position has been acquired and in specified other circumstances.

The rights have certain anti-takeover effects. The rights may cause substantial dilution to a person or entity that attempts to acquire us on terms not approved by our Board of Directors, except under the terms of an offer conditioned on a substantial number of rights being acquired. The rights should not interfere with any merger or other business combination approved by our Board of Directors since we may redeem the rights at $.001 per right.

Delaware Anti-Takeover Law

We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the

transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner or unless the interested stockholder acquired at least 85 percent of the corporation s voting stock (excluding shares held by designated stockholders) in the transaction in which it became an interested stockholder. A business combination includes mergers, assets sales and other transactions resulting in a financial benefit to the interested stockholder. In general, an interested stockholder is a person who, together with affiliates and associates, owns, or within the previous three years did own, 15 percent or more of the corporation s voting stock.

Table of Contents

Director and Officer Protection

Our certificate of incorporation and by-laws contain provisions which provide for the indemnification and limitation of liability of directors and officers. Our by-laws provide that, in general, we shall indemnify each of our directors and officers against liabilities incurred by reason of the fact that such person was a director or officer of American Superconductor if such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of American Superconductor. Our certificate of incorporation also provides that our directors may not be held personally liable to American Superconductor or our stockholders for monetary damages for a breach of fiduciary duty, except in specified circumstances involving wrongful acts, such as the breach of a director s duty of loyalty or acts of omission not in good faith or which involve intentional misconduct or a knowing violation of law. However, such limitation of liability would not apply to violations of the federal securities laws, nor does it limit the availability of nonmonetary relief in any action or proceeding against a director.

Transfer Agent

The transfer agent for our common stock is American Stock Transfer & Trust Company.

Table of Contents

UNDERWRITING

We have entered into an underwriting agreement with the underwriters named below. Needham & Company, Inc., William Blair & Company, L.L.C., and RBC Dain Rauscher Inc. are acting as representatives of the underwriters. The underwriters obligations are several, which means that each underwriter is required to purchase a specific number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase from us the number of shares opposite its name below.

Underwriter	Number of Shares
Needham & Company, Inc.	
William Blair & Company, L.L.C.	
RBC Dain Rauscher Inc.	
Total	4,000,000

The representatives have advised us that the underwriters propose to offer the shares of common stock to the public at the public offering price per share set forth on the cover page of this prospectus. The underwriters may offer shares to securities dealers, who may include the underwriters, at that public offering price less a concession of up to $ per share. The underwriters may allow, and those dealers may reallow, a concession to other securities dealers of up to $ per share. After the offering to the public, the offering price and other selling terms may be changed by the representatives.

We have granted an option to the underwriters to purchase up to 600,000 additional shares of common stock at the public offering price per share, less the underwriting discounts and commissions, set forth on the cover page of this prospectus. This option is exercisable during the 30-day period after the date of this prospectus. The underwriters may exercise this option only to cover over-allotments made in connection with this offering. If this option is exercised, each of the underwriters will purchase approximately the same percentage of the additional shares as the number of shares of common stock to be purchased by that underwriter, as shown in the table above, bears to the total shown.

The underwriting discount is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting discount is % of the public offering price. The following table shows the per share and total underwriting discount to be paid to the underwriters by us. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares.

		Total	
	Per Share	No Exercise	Full Exercise
Paid by American Superconductor	$	$	$

We estimate that the total expenses of the offering, excluding the underwriting discount and commissions, will be approximately $.

The underwriting agreement provides that we will indemnify the underwriters against certain liabilities that may be incurred in connection with this offering, including liabilities under the Securities Act, or to contribute payments that the underwriters may be required to make in respect thereof.

We have agreed not to offer, sell, contract to sell, grant options to purchase, or otherwise dispose of any shares of our common stock or securities exchangeable for or convertible into our common stock for a period of 90 days after the date of this prospectus without the prior consent of Needham & Company, Inc. This agreement does not apply to any existing employee benefit plans or upon conversion of outstanding securities. Our directors and executive officers have agreed not to, directly or indirectly, sell, hedge, or otherwise dispose of any shares of common stock, options to acquire shares of common stock, or securities exchangeable for or convertible into shares of common stock, for a period of 90 days after the date of this prospectus without the prior written consent of

Table of Contents

Needham & Company, Inc. Needham & Company, Inc. may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements.

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of our common stock. Specifically, the underwriters may over-allot in connection with this offering by selling more shares than are set forth on the cover page of this prospectus. This creates a short position in our common stock for their own account. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. To close out a short position or to stabilize the price of our common stock, the underwriters may bid for, and purchase, common stock in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter or dealer repays selling concessions allowed to it for distributing our common stock in this offering because the underwriters repurchase that stock in stabilizing or short covering transactions.

Finally, the underwriters may bid for, and purchase, shares of our common stock in market making transactions. These activities may stabilize or maintain the market price of our common stock at a price that is higher than the price that might otherwise exist in the absence of these activities. The underwriters are not required to engage in these activities, and may discontinue any of these activities at any time without notice. These transactions may be effected on the NASDAQ National Market or otherwise.

Table of Contents

LEGAL MATTERS

The validity of the shares of common stock covered by this prospectus will be passed upon for us by Hale and Dorr LLP, Boston, MA. Certain legal matters will be passed upon for the underwriters by Choate, Hall & Stewart, Boston, MA.

EXPERTS

Our consolidated financial statements as of March 31, 2003 and March 31, 2002 and for each of the three years in the period ended March 31, 2003 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934 and file annual, quarterly and special reports, proxy statements and other documents with the SEC. You may read and copy any reports, proxy statements and other documents we file at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of these reports, proxy statements and other documents at the SEC s website, the address of which is *http://www.sec.gov*.

We have filed a registration statement on Form S-3 and related exhibits with the SEC under the Securities Act of 1933. The registration statement contains additional information about us and the shares of common stock covered by this prospectus. You may inspect the registration statement and exhibits without charge and obtain copies from the SEC at the location above or from the SEC s web site.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating by reference certain documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus. Information in documents that we file with the SEC after the date of this prospectus will automatically update and supersede information in this prospectus. We incorporate by reference the documents listed below and any future filings we may make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and prior to the termination of the offering of the shares of common stock covered hereby.

- Our Annual Report on Form 10-K for the fiscal year ended March 31, 2003, filed with the SEC on June 30, 2003, as amended by a Form 10-K/A filed with the SEC on July 29, 2003;

- Our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003, filed with the SEC on August 14, 2003; and

The description of our common stock contained in our Registration Statement on Form 8-A filed with the SEC on March 5, 1991, as amended.

A statement contained in a document incorporated by reference into this prospectus shall be deemed to be modified or superceded for purposes of this prospectus to the extent that a statement contained in this prospectus, any prospectus supplement or in any other subsequently filed document which is also incorporated in this

Table of Contents

prospectus modifies or replaces such statement. Any statements so modified or superceded shall not be deemed, except as so modified or superceded, to constitute a part of this prospectus.

You may request a free copy of any of the documents incorporated by reference into this prospectus by writing or telephoning us at the following address:

American Superconductor Corporation

Two Technology Drive

Westborough, MA 01581

(508) 836-4200

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements for the Fiscal Years Ended March 31, 2003, 2002 and 2001

Report of Independent Accountants	F-2
Consolidated Balance Sheets as of March 31, 2003 and 2002	F-3
Consolidated Statements of Operations for the years ended March 31, 2003, 2002 and 2001	F-4
Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2002 and 2001	F-5
Consolidated Statements of Comprehensive Loss for the years ended March 31, 2003, 2002 and 2001	F-6
Consolidated Statements of Stockholders Equity for the years ended March 31, 2003, 2002 and 2001	F-7
Notes to Consolidated Financial Statements	F-8
Consolidated Financial Statements for the Three Months Ended June 30, 2003 and 2002	
Unaudited Consolidated Balance Sheet as of June 30, 2003 and Consolidated Balance Sheet as of March 31, 2003	F-27
Unaudited Consolidated Statements of Operations for the three months ended June 30, 2003 and 2002	F-28
Unaudited Consolidated Statements of Comprehensive Loss for the three months ended June 30, 2003 and 2002	F-29
Unaudited Consolidated Statements of Cash Flows for the three months ended June 30, 2003 and 2002	F-30
Notes to Unaudited Consolidated Financial Statements	F-31

Table of Contents

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of

American Superconductor Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, stockholders equity and cash flows present fairly, in all material respects, the financial position of American Superconductor Corporation and its subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

June 27, 2003

F-2

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31,	
	2003	**2002**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,487,752	$ 37,170,927
Accounts receivable	5,446,007	7,583,505
Inventory	5,117,786	13,212,831
Prepaid expenses and other current assets	1,264,839	708,079
Total current assets	30,316,384	58,675,342
Property and equipment:		
Land	4,021,611	4,244,611
Construction in progress building and equipment	8,773,458	79,685,813
Building	34,102,138	
Equipment	31,966,730	24,939,124
Furniture and fixtures	4,167,345	3,833,016
Leasehold improvements	6,246,497	6,226,267
	89,277,779	118,928,831
Less: accumulated depreciation	(28,241,982)	(21,209,230)
Property and equipment, net	61,035,797	97,719,601
Long-term marketable securities	1,561,120	31,028,683
Long-term inventory	3,250,000	3,787,000
Goodwill	1,107,735	1,107,735
Other assets	4,707,603	5,476,563
Total assets	$ 101,978,639	$ 197,794,924
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,773,874	$ 20,784,931
Deferred revenue	1,136,002	1,056,806
Total current liabilities	10,909,876	21,841,737
Long-term deferred revenue	3,250,000	3,787,000
Commitments (Note 11)		
Stockholders equity:		
Common stock, $.01 par value		
Authorized shares 50,000,000; issued and outstanding 21,293,772 and 20,497,514 at March 31, 2003 and 2002, respectively	212,938	204,975
Additional paid-in capital	361,024,689	357,781,718
Deferred compensation	(311,563)	(318,199)

Deferred contract costs		(121,167)
Accumulated other comprehensive income	2,407	95,641
Accumulated deficit	(273,109,708)	(185,476,781)
Total stockholders equity	87,818,763	172,166,187
Total liabilities and stockholders equity	$ 101,978,639	$ 197,794,924

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended March 31,		
	2003	**2002**	**2001**
Revenues:			
Contract revenue	$ 715,109	$ 2,111,460	$ 3,185,537
Product sales and prototype development contracts	20,305,183	9,538,640	13,581,987
Total revenues	21,020,292	11,650,100	16,767,524
Costs and expenses:			
Costs of revenue contract revenue	684,341	2,100,789	3,135,440
Costs of revenue product sales and prototype development contracts	31,517,605	17,298,856	10,980,753
Research and development	21,940,369	27,814,044	22,832,357
Selling, general and administrative	16,158,585	16,313,306	14,214,542
Pirelli license costs		4,009,890	
Restructuring charges		5,666,059	
Impairment charge	39,230,877		
Total costs and expenses	109,531,777	73,202,944	51,163,092
Operating loss	(88,511,485)	(61,552,844)	(34,395,568)
Interest income	868,648	4,450,769	12,555,411
Other income, net	9,910	117,186	164,146
Net loss	$ (87,632,927)	$ (56,984,889)	$ (21,676,011)
Net loss per common share			
Basic and diluted	$ (4.21)	$ (2.79)	$ (1.08)
Weighted average number of common shares outstanding			
Basic and diluted	20,830,846	20,409,233	20,127,348

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended March 31,		
	2003	**2002**	**2001**
Cash flows from operating activities:			
Net loss	$ (87,632,927)	$ (56,984,889)	$ (21,676,011)
Adjustments to reconcile net loss to net cash used by operations:			
Depreciation and amortization	8,102,136	5,509,043	4,098,904
Impairment charge	39,230,877		
Allowance for doubtful accounts	2,624,010	727,028	
Inventory write-down charges	3,421,100	3,464,275	
Loss on disposal of PP&E, patents, and licenses	875,123		
Restructuring charges (non-cash portion)		2,929,741	
Pirelli license payment (non-cash portion)		1,720,500	
Deferred compensation expense	14,777	106,067	106,067
Deferred warrant costs	174,457	268,470	354,495
Stock compensation expense	367,192	479,472	222,014
Changes in operating asset and liability accounts:			
Accounts receivable	(486,512)	4,947,670	(5,546,781)
Inventory	5,360,285	(2,376,178)	(8,580,998)
Prepaid expenses and other current assets	(532,114)	(167,801)	205,385
Accounts payable and accrued expenses	(10,665,557)	11,863,409	2,236,999
Deferred revenue current and long-term	(457,804)	1,056,806	2,155,867
Net cash used by operating activities	(39,604,957)	(26,456,387)	(26,424,059)
Cash flows from investing activities:			
Purchase of property and equipment	(7,799,235)	(63,122,176)	(35,897,926)
Purchase of long-term marketable securities	(770,000)		
Sale of long-term marketable securities	30,119,683	39,452,114	21,526,392
Purchase of assets of Integrated Electronics, LLC			(755,000)
Net investment in sales-type lease			279,110
Increase in other assets	(992,457)	(3,173,100)	(2,175,930)
Net cash provided by/(used in) investing activities	20,557,991	(26,843,162)	(17,023,354)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	363,791	1,407,177	5,592,944
Net cash provided by financing activities	363,791	1,407,177	5,592,944
Net increase (decrease) in cash and cash equivalents	(18,683,175)	(51,892,372)	(37,854,469)
Cash and cash equivalents at beginning of year	37,170,927	89,063,299	126,917,768
Cash and cash equivalents at end of year	$ 18,487,752	$ 37,170,927	$ 89,063,299
Supplemental schedule of cash flow information:			
Noncash issuance of common stock	$ 727,469	$ 585,539	$ 1,406,206

Noncash purchase of NST Inventory	$ 149,340	$	$
Noncash purchase of NST Property, Plant & Equipment	1,763,680		
Noncash purchase of NST Patent assets	200,000		
Noncash issuance of common stock NKT Holding	$ 2,113,020	$	$

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year ended March 31,		
	2003	**2002**	**2001**
Net loss	$ (87,632,927)	$ (56,984,889)	$ (21,676,011)
Other comprehensive (loss)			
Foreign currency translation	24,646	7,007	(8,591)
Unrealized gains (losses) on investments	(117,880)	(681,007)	950,747
Other comprehensive income (loss)	(93,234)	(674,000)	942,156
Comprehensive income (loss)	$ (87,726,161)	$ (57,658,889)	$ (20,733,855)

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock							
	Number of Shares	Par Value	Additional Paid-in Capital	Deferred Compensation	Deferred Contract Costs	Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity
Balance at March 31, 2000	19,734,714	$ 197,347	$ 348,903,034	$ (530,333)	$ (637,552)	$ (172,515)	$ (106,815,881)	$ 240,944,100
Exercise of stock options	490,068	4,901	5,572,335					5,577,236
Purchase of IE	37,500	375	1,077,750					1,078,125
Exercise of stock warrants	18,253	182	15,526					15,708
Amortization of deferred compensation				106,067				106,067
Stock compensation expense	10,061	101	221,913					222,014
Amortization of deferred warrant costs			53,290		301,205			354,495
Unrealized gain on investments						950,747		950,747
Cumulative translation adjustment						(8,591)		(8,591)
Net loss							(21,676,011)	(21,676,011)
Balance at March 31, 2001	20,290,596	$ 202,906	$ 355,843,848	$ (424,266)	$ (336,347)	$ 769,641	$ (128,491,892)	$ 227,563,890
Exercise of stock options	75,166	752	708,748					709,500
Issuance of common stock ESPP	96,720	967	696,710					697,677
Amortization of deferred compensation				106,067				106,067
Stock compensation expense	35,032	350	479,122					479,472
Amortization of deferred warrant costs			53,290		215,180			268,470
Unrealized loss on investments						(681,007)		(681,007)
Cumulative translation adjustment						7,007		7,007
Net loss							(56,984,889)	(56,984,889)
Balance at March 31, 2002	20,497,514	$ 204,975	$ 357,781,718	$ (318,199)	$ (121,167)	$ 95,641	$ (185,476,781)	$ 172,166,187
Issuance of common stock ESPP	88,881	889	362,902					363,791
Purchase of NST Assets	546,000	5,460	2,107,560					2,113,020
Issuance of common stock to Pirelli	50,000	500	345,000					345,500
Deferred Compensation	30,000	300	7,841	(8,141)				0
Amortization of deferred compensation				14,777				14,777
Stock compensation expense	81,377	814	366,378					367,192
Amortization of deferred warrant costs			53,290		121,167			174,457
Unrealized loss on investments						(117,880)		(117,880)
Cumulative translation adjustment						24,646		24,646
Net loss							(87,632,927)	(87,632,927)

Balance at March 31, 2003	21,293,772	$ 212,938	$ 361,024,689	$ (311,563)	$	$ 2,407	$ (273,109,708)	$ 87,818,763

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS

1. Nature of the Business and Operations

American Superconductor Corporation (the Company), which was formed on April 9, 1987, is a world leader in developing and manufacturing products using superconducting materials and power electronic converters for electric power applications. The focus of the Company s development and commercialization efforts is on electrical equipment for electric utilities, transmission grid operators, industrial and commercial users of electrical power, and commercial and military ships. For large-scale applications, the Company s development efforts are focused on high temperature superconductor (HTS) wire for use in power transmission cables, motors, and generators. The Company is also developing and commercializing electric motors and generators based on its HTS wire. For power quality and reliability applications, the Company is focused on proprietary power electronic converters that rapidly switch, control and modulate power. The Company also designs, manufactures, and sells systems based on those power electronic converters for power quality and reliability solutions. The Company operates in three business segments AMSC Wires, SuperMachines and Power Electronic Systems.

The Company has generated operating losses since its inception in 1987 and expects to continue incurring losses until at least the end of fiscal 2005. Operating losses for the fiscal years ended March 31, 2003, 2002 and 2001 have contributed to net cash used by operating activities of $39.6 million, $26.5 million and $26.4 million, respectively, for these periods. This three-year history of operating cash usage is on average greater than the Company s balance of cash, cash equivalents and long-term marketable securities at March 31, 2003 of $20.0 million. Furthermore, the Company anticipates that operating losses in the first quarter of fiscal 2004 ending June 30, 2003 will cause its balance of cash, cash equivalents and long-term marketable securities to decrease to between $11 million and $13 million.

To respond to the cash usage projected in the first fiscal quarter, the Company will be undertaking a series of cost reduction actions beginning in the second fiscal quarter. Some or all of these actions will encompass curtailing or discontinuing selected outside services, freezing new hiring, and headcount attrition. In addition, the Company plans to defer all but the most essential capital expenditures. The cash savings from the aforementioned cost reduction actions combined with an increasing level of revenues for the remainder of the fiscal year are expected to lower the Company s quarterly cash usage beginning in the second quarter of fiscal 2004.

To supplement the Company s anticipated cash needs from operations as well as to fund its investment in the second generation wire development program, the Company has been examining a number of options for raising additional capital. Based on these efforts over the last year, the Company, in June 2003, signed non-binding letters of intent with three groups of investors to provide up to $50 million in financing. These letters of intent are subject to satisfactory due diligence by these investors, the completion of formal legal documentation and approval by the Company s shareholders. The $50 million in financing is expected to be comprised of a five-year term loan of up to $30 million to be provided by a corporate finance company and several institutional investors with these amounts secured by the Company s existing assets and those assets projected to be acquired, excluding accounts receivable and inventory. In addition, three institutional investors have also signed a non-binding letter of intent to provide $10 million in the form of subordinated notes that are convertible into common stock of the Company. The Company has also signed a non-binding letter of intent with a commercial bank to provide up to $10 million in the form of a working capital credit facility that is to be secured by the Company s accounts receivable and inventory.

Each of the investor groups will also be issued warrants to acquire shares of the Company s common stock. The conversion feature of the subordinated convertible notes combined with the warrants will trigger the NASDAQ requirement that the Company s shareholders approve this

$50 million financing transaction prior to its closing. Consequently, should the Company be able to close this transaction, the earliest this would occur

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

would be the end of August 2003. While the Company believes it will be able to complete the $50 million financing transaction, it can make no assurance that such funds will be available, or available under terms acceptable to it, or that the Company s shareholders will approve this financing transaction. In the event that this transaction cannot be completed, the Company is confident that it could obtain conventional mortgage financing on its Devens, MA manufacturing facility that, combined with its available cash, cash equivalents and long-term marketable securities, would be sufficient to satisfy the Company s anticipated cash requirements for its fiscal year ending March 31, 2004.

The Company currently derives a portion of its revenue from research and development contracts. The Company recorded contract revenue related to research and development contracts of $715,109, $2,111,460, and $3,185,537 for the fiscal years ended March 31, 2003, 2002, and 2001, respectively. In addition, the Company recorded prototype development contract revenues on U.S. Navy contracts of $8,220,348, $6,036,591, and $2,507,399, which are included under Revenues Product sales and prototype development contracts , for the fiscal years ended March 31, 2003, 2002, and 2001, respectively.

Costs of revenue include research and development and selling, general and administrative expenses that are incurred in the performance of these development contracts.

Research and development and Selling, general and administrative expenses included as Costs of revenue were as follows:

	For the years ended March 31,		
	2003	**2002**	**2001**
Research and development expenses	$ 10,997,000	$ 8,757,000	$ 5,879,000
Selling, general and administrative expenses	$ 1,482,000	$ 1,659,000	$ 1,821,000

2. Summary of Significant Accounting Policies

A summary of the Company s significant accounting policies follows:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances are eliminated. Certain prior year amounts have been reclassified to be consistent with the current year presentation.

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of government obligations, repurchase agreements, money market accounts, and other debt instruments.

Accounts Receivable

Due to scheduled billing requirements specified under certain contracts, a portion of the Company s accounts receivable balance at March 31, 2003 and 2002 was unbilled. The Company expects most of the unbilled balance at March 31, 2003 to be billed by the first quarter of the fiscal year ending March 31, 2004. At March 31, 2003, the Company had three customers that represented approximately 48%, 15% and 10% of the total accounts receivable balance. At March 31, 2002, the Company had two customers that represented approximately 43% and 38% of the total accounts receivable balance.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

Long-term Marketable Securities

Long-term marketable securities, with original maturities of 12 months or more when purchased, consist primarily of U.S. Treasury Notes, U.S. government agency securities, corporate bonds and other debt securities, in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such classification as of each balance sheet date.

Inventories

Inventories are stated at the lower of cost (determined on a first-in first-out basis) or market.

Property and Equipment

The Company accounts for depreciation and amortization using the straight-line method to allocate the cost of property and equipment over their estimated useful lives as follows:

Asset classification	Estimated useful life
Building	40 years
Process upgrades to the building	10-40 years
Machinery and equipment	5-10 years
Furniture and fixtures	3 years
Leasehold improvements	Remaining lease term

Expenditures for maintenance and repairs are expensed as incurred. Upon retirement or other disposition of assets, the costs and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in income.

Depreciation expense was $7,098,641, $4,888,353, and $3,768,518 for the fiscal years ended March 31, 2003, 2002, and 2001, respectively.

Acquisition of Assets

On October 31, 2002, the Company acquired fixed assets, inventory and patents from Nordic Superconductor Technologies A/S (NST), a subsidiary of NKT Holding A/S, in exchange for 546,000 shares of the Company s common stock valued at $2,113,020. NKT Holding has agreed to hold these shares for at least two years. NST had developed and marketed HTS wire to customers in Europe, Asia, and North America. The Company did not assume any debt or other liabilities in the transaction. No NST employees were retained by the Company. The assets acquired were fixed assets valued at $1,763,680, patents valued at $200,000, and inventory valued at $149,340.

Goodwill and Other Intangible Assets

The Company has intangibles assets consisting of goodwill, licenses and patents.

Effective April 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which requires that ratable amortization of goodwill and certain intangibles be replaced with periodic tests of goodwill s impairment and that other intangibles be amortized over their useful lives unless these lives are determined to be indefinite. SFAS No. 142

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

requires that goodwill be tested annually for impairment under a two-step process or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The Company amortizes licenses and patents using the straight-line method over a period up to 7 years.

The Company reviews its goodwill at least annually or when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. If the carrying amount of the net tangible and intangible assets in a given reporting unit exceeds the reporting unit s fair value, a detailed impairment loss analysis would be performed to calculate the amount of impairment, if any, prescribed by Statement of Financial Accounting Standards (SFAS) No. 142. Goodwill of $1,107,735 at March 31, 2003 and 2002 represents the excess of the purchase price paid for the acquisition of substantially all of the assets of Integrated Electronics, LLC (IE) on June 1, 2000, over the fair value of IE s assets, less amortization. The IE transaction was accounted for under the purchase method of accounting. Goodwill was initially calculated to be $1,329,282, and was amortized until the adoption of SFAS 142 on April 1, 2001.

Goodwill amortization expense was $0 in the fiscal years ended March 31, 2003 and 2002, respectively, and $221,547 in the fiscal year ended March 31, 2001. Accumulated goodwill amortization was $221,547 at March 31, 2003 and 2002. Effective April 1, 2001, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, and has ceased amortizing the goodwill recorded as a result of the acquisition of substantially all of the assets of IE on June 1, 2000.

The following table presents the impact SFAS No. 142 would have on the Company s net income had the standard been in effect for the year ended March 31, 2001. In fiscal 2001, the goodwill amortization was expensed through the Cost of revenue product sales and prototype development contracts.

	Year ended March 31, 2001		
	As Reported	**FAS 142 Adjustment**	**As Adjusted**
Cost of revenue product sales and prototype development contracts	$ (10,980,753)	$ 221,547	$ (10,759,206)
Net loss	(21,676,011)	221,547	(21,454,464)
Net loss per common share basic and diluted	$ (1.08)	$ 0.01	$ (1.07)

Accounting for Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets for potential impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company performs these evaluations whenever events or circumstances suggest that the carrying amount of an asset or group of assets is not recoverable. The Company s judgments regarding the existence of impairment indicators are based on market

and operational performance. Indicators of potential impairment include:

- a significant change in the manner in which an asset is used;
- a significant decrease in the market value of an asset;
- a significant adverse change in its business or the industry in which it is sold;
- a current period operating cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the asset; and
- significant advances in the Company s technologies that require changes in the manufacturing process.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

If the Company believes an indicator of potential impairment exists, it tests to determine whether impairment recognition criteria in SFAS No. 144 have been met. To analyze a potential impairment, the Company projects undiscounted future cash flows over the remaining life of the asset or the primary asset in the asset group. If these projected cash flows are less than the carrying amount, an impairment loss is recognized based on the fair value of the asset or asset group less any costs of disposition. Evaluating the impairment requires judgment by the Company s management to estimate future operating results and cash flows. If different estimates were used, the amount and timing of asset impairments could be affected. The Company charges impairments of the long-lived assets to operations if its evaluations indicate that the carrying values of these assets are not recoverable.

Revenue Recognition

For certain arrangements, such as contracts to perform research and development and prototype development contracts, the Company records revenues using the percentage of completion method, measured by the relationship of costs incurred to total estimated contract costs. The Company follows this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. Recognized revenues and profit or loss are subject to revisions as the contract progresses to completion. Revisions in profit or loss estimates are charged to income in the period in which the facts that give rise to the revision become known.

The Company recognizes revenue from product sales upon shipment, installation or acceptance, where applicable, provided persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured, or for some programs, on the percentage of completion method of accounting. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations (including buyback provisions) are fulfilled.

Research and Development Costs

Research and development costs are expensed as incurred.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each fiscal year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. No current or deferred income taxes have been provided because of the net operating losses incurred by the

Company since its inception.

Stock-Based Compensation Plans and Pro Forma Stock-Based Compensation Expense

The Company applies Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock-based compensation plan. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to stockholders equity.

In October 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation, which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plan.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

Had compensation cost for awards granted after 1994 under the Company s stock-based compensation plan been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain financial information of the Company would have been as follows (in thousands):

	For the fiscal years ended March 31,		
	2003	**2002**	**2001**
Net loss (in thousands)	$ (87,633)	$ (56,985)	$ (21,676)
Add back restricted stock expense	14	106	106
Less: Stock compensation costs, net of tax, had all options been recorded at fair value per SFAS 123	(6,726)	(10,096)	(10,569)
Pro forma net loss	$ (94,345)	$ (66,975)	$ (32,139)
Net loss per share, as reported	$ (4.21)	$ (2.79)	$ (1.08)
Net loss per share, pro forma	$ (4.53)	$ (3.28)	$ (1.60)

The pro forma amounts include the effects of all activity under the Company s stock-based compensation plans since April 1, 1998. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants:

	2003	**2002**	**2001**
Dividend yield	None	None	None
Expected volatility	101%	87%	85%
Risk-free interest rate	4.0%	4.5%	5.7%
Expected life (years)	6.5	6.8	6.8

Weighted average fair value of options granted at fair market value during:	
2003	$ 6.04
2002	$ 10.35
2001	$ 24.85

The above amounts may not be indicative of future expense because amounts are recognized over the vesting period and the Company expects it will have additional grants and related activity under these plans in the future.

Computation of Net Loss per Common Share

Basic earnings per share (EPS) is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares include the effect of the exercise of stock options and warrants. For the years ended March 31, 2003, 2002, and 2001, common equivalent shares of 4,485,201, 2,537,279, and 2,523,769, respectively, were not included in the calculation of diluted EPS as they were considered antidilutive.

Foreign Currency Translation

The functional currency of the Company s foreign subsidiary is the local currency. The assets and liabilities of this operation are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

income and expense items are translated at average rates for the period. Cumulative translation adjustments are excluded from net loss and shown as a separate component of stockholders equity. Foreign currency transaction gains and losses are included in the net loss and have not been material to date.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

The Company invests its cash and cash equivalents with high-credit, quality financial institutions and invests primarily in investment grade-marketable securities, including, but not limited to, government obligations, repurchase agreements, and money market funds.

The Company s accounts receivable are comprised of amounts owed by government agencies and commercial companies. The Company does not require collateral or other security to support customer receivables.

Several of the Company s government contracts are being funded on an incrementally-funded basis, and as such, are subject to the future availability and authorizations of government funding. The Company has a history of successful performance under incrementally-funded contracts with the U.S. government and it expects to continue to receive additional contract modifications in fiscal 2004 and beyond as incremental funding is authorized and appropriated by the government.

3. Long-term Marketable Securities

Long-term marketable securities at March 31, 2003 and 2002 consisted of U.S. government and government agency securities and corporate bonds.

	2003	2002
Aggregate cost	$ 1,552,249	$ 30,909,413

Fair value	1,561,120	31,028,683
Gross unrealized gain	$ 8,871	$ 119,270

The Company s long-term marketable securities are classified as available-for-sale securities and, accordingly, are recorded at amortized cost plus accrued interest which approximates fair value. The difference between cost and fair value is included in stockholders equity. All of these securities mature in one to two years.

4. Accounts Receivable

Accounts receivable at March 31, 2003 and 2002 consisted of the following:

	2003	2002
Accounts receivable (billed)	$ 4,828,214	$ 3,076,361
Accounts receivable (unbilled)	3,275,278	4,549,144
Less: Allowance for doubtful accounts	(2,657,485)	(42,000)
Net accounts receivable	$ 5,446,007	$ 7,583,505

F-14

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

The Company recorded a $2,624,010 and $727,028 allowance for doubtful accounts provision in fiscal 2003 and 2002, respectively. These are shown as part of selling, general and administrative expense. The $727,028 receivable was written off in fiscal 2002 against the allowance for doubtful accounts.

5. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	2003	2002
Raw materials	$ 1,217,033	$ 1,545,327
Work-in-progress	2,250,321	10,046,359
Finished goods	1,650,432	1,621,145
	$ 5,117,786	$ 13,212,831

The Company also has long-term inventory (see Note 7). The Company recorded a charge of $3,421,100 and $3,464,275 for fiscal 2003 and 2002, respectively, relating to the write-down of the remaining inventory value of low temperature superconductor storage devices. These inventory reserve provisions were recorded as part of Costs of revenue product sales and prototype development contracts.

6. Other Assets

Other assets at March 31, 2003 and 2002 consisted of the following:

	2003	2002
Licenses	$ 1,053,248	$ 1,148,247
Patents	5,725,055	5,715,795
Deposits	56,962	57,333
	6,835,265	6,921,375

Less: accumulated amortization	(2,127,662)	(1,444,812)
Other assets	$ 4,707,603	$ 5,476,563

The Company recorded patent and license amortization expense of $1,003,495, $620,690, and $330,386 for fiscal years 2003, 2002, and 2001, respectively. During fiscal 2003, disposals of Licenses and Patents were $95,000 and $812,529, respectively, with an accumulated amortization of $320,645, resulting in a net disposal- related change in Other assets of $586,884. There were no disposals of Other assets in fiscal 2002 or fiscal 2001.

7. Long-term Inventory and Deferred Revenue

Long-term inventory of $3,250,000 represents SMES units that were delivered in fiscal 2001 to one of our customers, Wisconsin Public Service Corporation (WPS) for a total purchase price of $3,787,000, less $537,000 recorded as revenue in the quarter ended December 31, 2002. As the sale of these units is subject to certain return and buyback provisions which expire from 2002 to 2009, the Company is deferring recognition of the revenue related to the remaining $3,250,000 in sales until the applicable buyback provisions lapse. Long-term deferred revenue of $3,250,000 represents the $3,787,000 cash payment received from WPS related to this transaction, less $537,000 recorded as revenue in the third quarter of fiscal 2003.

The buyback provisions, which are subject to a minimum 6-month written notice requirement, began to lapse in the quarter ended December 31, 2002, until which time WPS had the right to return all the units for the

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

full purchase price of $3,787,000. On December 31 of each year after 2002, WPS has the right, subject to a minimum 6-month notice requirement, to sell the units back to the Company at a reduced price. Between January 1, 2003 and the next annual buyback date of December 31, 2003, the repurchase price for the units will be $3,250,000 and that price is further reduced by approximately 12% per year through December 31, 2009.

The Company recorded $537,000 of revenue and an equal amount of cost of revenue in the quarter ended December 31, 2002, as the buyback price transitioned from $3,787,000 to $3,250,000. The Company also recorded a $537,000 reduction in long-term inventory and long-term deferred revenue.

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at March 31, 2003 and 2002 consisted of the following:

	2003	2002
Accounts payable	$ 3,721,307	$ 12,901,332
Accrued restructuring	435,317	2,520,115
Accrued employee stock purchase plan	199,567	267,535
Accrued expenses	4,749,327	4,353,565
Accrued vacation	668,356	742,384
	$ 9,773,874	$ 20,784,931

9. Income Taxes

The reconciliation between the statutory federal income tax rate and the Company s effective income tax rate is shown below.

For the Years Ended March 31,		
2003	2002	2001

Statutory federal income tax rate	(34)%	(34)%	(34)%
State income taxes, net federal benefit	(6)%	(7)%	(6)%
Nondeductible expenses	0%	1%	1%
Research & development credit	0%	(2)%	(3)%
Valuation allowance	40%	42%	42%
Effective income tax rate	0%	0%	0%

The principal components of the Company s deferred tax liabilities and assets were the following:

	For the Years Ended March 31,	
	2003	2002
Deferred tax assets and (liabilities):		
Net operating loss carryforward	$ 93,547,000	$ 77,726,000
Research and development and other credits	3,583,000	4,454,000
Accruals and reserves	4,146,000	5,279,000
Fixed Assets and intangibles	17,475,000	(249,000)
Other	302,000	155,000
Valuation allowance	(119,053,000)	(87,365,000)
Net	$	$

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

At March 31, 2003 the Company had available for federal income tax purposes net operating loss carryforwards of approximately $242,600,000, which expire in years 2004 through 2024. This includes approximately $14,900,000 of acquired net operating losses from Superconductivity, Inc. (SI) which begin to expire in the fiscal year ending 2004, and their utilization by the Company will be subject to annual limitations. SI was acquired by the Company on April 8, 1997.

The Company has recorded a deferred tax asset of approximately $12,666,000 reflecting the benefit of deductions from the exercise of stock options. This deferred tax asset has been fully reserved until it is more likely than not that the tax benefit from the exercise of stock options will be realized. The benefit from this $12,666,000 will be recorded as a credit to additional paid-in capital when realized. Research and development and other credit carryforwards amounting to approximately $4,200,000 are available to offset federal and state income taxes and expire in years 2004 through 2024. Under current tax law, the utilization of net operating loss and research and development and other tax credit carryforwards may be subject to annual limitations in the event of certain changes in ownership.

10. Stockholders Equity

The Offerings

On March 6, 2000 the Company completed a public offering of 3,500,000 shares of its common stock and received net proceeds (after the underwriters discount but before deducting offering expenses) of $205,625,000. On April 22, 1998 the Company completed a public offering of 3,504,121 shares of its common stock and received net proceeds (after the underwriters discount but before deducting offering expenses) of $46,114,000, of which approximately $3,142,000 was used to retire the Company s subordinated notes.

Stock Compensation Expense

The composition of stock compensation expense in the Statement of Stockholder s Equity for the last three fiscal years was as follows:

	For the fiscal years ended March 31,		
	2003	**2002**	**2001**
401(k) Match	$ 360,003	$ 461,892	$ 181,086
Employee Stock Awards	7,189	17,580	40,928

	$ 367,192	$ 479,472	$ 222,014

Stock-Based Compensation Plans

The Company has six stock option plans including three Directors Plans. The stock option plans (the Plans) include the 1987 Stock Plan (the 1987 Plan), the 1993 Stock Option Plan (the 1993 Plan), the 1996 Stock Incentive Plan (the 1996 Plan), the 1991 Director Stock Option Plan (the 1991 Director Plan), the 1994 Director Stock Option Plan (the 1994 Director Plan), and the Amended and Restated 1997 Director Stock Option Plan (the 1997 Director Plan). The Board of Directors authorized the issuance of 74,000 shares of restricted stock with a fair market value of $636,400 to certain officers in fiscal year 2000. The shares are subject to restrictions on transfers and repurchase rights in favor of the Company; the restriction on sale can be removed upon meeting certain corporate performance targets or at the end of a six-year vesting period. The Company recorded expenses of $106,067, $106,067, and $106,067 for the fiscal years ended 2003, 2002 and 2001, respectively, related to this issuance. Due to officer attrition, the Company also recorded an adjustment to

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

deferred compensation in fiscal year 2003. The Board of Directors authorized an additional 31,000 shares of restricted stock in fiscal 2003 with a fair market value of $193,440 to certain officers. The Company recorded expenses of $32,244 in fiscal 2003 related to this issuance. Additionally, the Board of Directors authorized options for an additional 175,000 shares related to the acquisition of IE. All options issued under the IE plan are nonqualified. The Plans are administered by the Compensation Committee of the Board of Directors and permit the Company to sell or award common stock or to grant stock options for the purchase of common stock.

The Plans provide for the issuance of incentive stock options and non-qualified stock options to purchase the Company s common stock. In the case of incentive stock options, the exercise price shall be equal to at least the fair market value of the common stock, as determined by the Board of Directors, on the date of grant. The 1991, 1994 and 1997 Director Plans are stock option plans for members of the Board of Directors who are not also employees of the Company (outside directors). The 1997 Director Plan provides for the automatic grant of stock options for the purchase of common stock by outside directors at an exercise price equal to fair market value at the grant date. No further grants may be made under the 1987 Plan, the 1991 Director Plan or the 1994 Director Plan.

Options granted under the Plans, other than the Amended and Restated 1997 Director Stock Option Plan, generally become exercisable in equal annual increments over a four or five year period and expire 10 years from the date of grant or from two to three months after termination of employment.

The following table summarizes information about stock options outstanding at March 31, 2003.

	Outstanding			Exercisable	
Range of Exercise Price	Number Outstanding At 3/31/03	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 3/31/03	Weighted Average Exercise Price
$ 0.00 5.89	163,000	7.4	$ 1.78	163,000	$ 1.78
5.89 11.78	1,600,510	6.1	9.45	884,518	10.01
11.78 17.66	988,905	5.2	13.24	604,115	12.94
17.66 23.55	439,750	2.1	20.66	390,950	20.58
23.55 29.44	622,750	6.0	26.04	257,740	26.03
29.44 35.33	750,000	7.3	32.56	300,000	32.56
35.33 41.21	65,000	6.5	36.79	26,000	36.79
41.21 58.88	40,000	6.9	58.88	30,000	58.88
$ 0.00 58.88	4,669,915	5.8	$ 17.77	2,656,323	$ 16.64

F-18

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

The following table summarizes the information concerning currently outstanding and exercisable options:

	Shares	Weighted average Exercise Price	Number Exercisable
Outstanding at March 31, 2000	3,464,721	$ 12.86	1,398,191
Granted	1,703,200	29.33	
Exercised	(490,068)	11.61	
Canceled	(91,044)	14.48	
Outstanding at March 31, 2001	4,586,809	18.93	1,515,347
Granted	857,050	13.30	
Exercised	(75,166)	9.59	
Canceled	(416,153)	14.35	
Outstanding at March 31, 2002	4,952,540	18.51	2,235,801
Granted	524,300	6.76	
Exercised	(0)	0.00	
Canceled	(806,925)	15.16	
Outstanding at March 31, 2003	4,669,915	$ 17.77	2,656,323
Available for grant at March 31, 2003		1,414,205	

Stock Purchase Warrants

The Company recorded an increase to additional paid-in capital and a corresponding charge to deferred warrant costs of approximately $336,000 in January 1998 related to the issuance of stock purchase warrants for 250,500 shares of common stock at an exercise price of $10.20 per share which were exercisable over a five-year period following the date of grant. These warrants, which were not exercised, were granted in consideration of ongoing financial services being provided to the Company. Expense related to these warrants was approximately $50,000, $67,000 and $67,000 for the fiscal years ended March 31, 2003, 2002 and 2001, respectively.

The Company also granted warrants in 1996 and 1998 to the Electric Power Research Institute (EPRI). See Note 12.

11. Commitments

The Company rents its headquarters in Westborough, MA, under an operating lease, which expires in May 2009. In October 2000 the Company leased additional facilities in Westborough for the development of electric motor and generator technology under an operating lease that expires in 2005. The Company also rents an operating facility near Madison, WI, under a lease which expires on December 31, 2004, and one facility near Milwaukee, WI, under a lease which expires in 2011. The Company has an option to extend the Madison, WI lease for an additional three or five-year period. As part of its restructuring, consolidation and cost cutting measures announced in March 2002, the Company is outsourcing requirements for low temperature superconductor (LTS) magnets used in its SMES systems and as a result ceased operations in one of its two buildings in Middleton, WI, comprising approximately 27,000 square feet. Under all leases, the Company pays for real estate taxes, certain insurance coverage and operating expenses.

Rent expense under the leases mentioned above was as follows:

	2003	2002	2001
Rent expense	$ 2,043,000	$ 1,994,000	$ 1,435,000

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

Minimum future lease commitments at March 31, 2003 were as follows:

For the years ended March 31,	Total
2004	$ 2,855,298
2005	2,881,441
2006	2,726,578
2007	2,612,257
2008	2,792,619

In September 2002, the Company entered into a standby letter of credit arrangement with a financial institution to provide a guarantee for rent of $1,000,000 for the Two Technology Drive facility in Westborough, Massachusetts. The letter of credit amount may be reduced to $750,000 at June 1, 2005 and to $500,000 at June 1, 2007. This letter of credit will expire on July 31, 2009.

As permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. The term of the indemnification period is for the officer s or director s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a Director and Officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to March 31, 2003. Accordingly, we have no liabilities recorded for these agreements as of March 31, 2003.

12. Research and Development Agreements

The Company signed an agreement with Pirelli in February 2002 giving the Company the right to sell HTS wire to other cable manufacturers in addition to Pirelli in exchange for a $2,250,000 one-time license payment, 50,000 shares of its stock (valued at $6.91 per share), royalties on future such sales of wire, and the forgiveness of $1,375,000 of accounts receivable. The agreement discontinued Pirelli s funding of the Company s research and development effective January 1, 2002. Under the previous agreement, Pirelli provided the Company with $500,000 per quarter in research and development funding. Pirelli will, however, continue its participation in the Company s multi-filamentary composite wire product development programs through September 2003. The Pirelli alliance was originally established in February 1990; in the 12-year period between 1990 and March 31, 2002, the Company received development funding of approximately $23,100,000 from Pirelli. The Company recorded revenues under this contract of $0, $1,500,000 and $2,000,000 in fiscal years ended March 31, 2003, 2002 and 2001, respectively.

In March 1996, the Company entered into a strategic alliance with the Electric Power Research Institute (EPRI) to develop and commercialize a coated conductor composite HTS wire. This agreement ended on March 31, 2000. In March 1996, under the first phase of the agreement, the Company granted a warrant for 100,000 shares of common stock (87,500 of which have been exercised) to EPRI at $14.00 per share which

became exercisable over a five-year period following the date of grant. In March 1998, under the second phase of the agreement, the Company granted to EPRI another warrant to purchase 110,000 shares of common stock (41,250 of which have been exercised) of the Company at $13.94 per share, which became exercisable over a five-year period. The Company has received exclusive license rights to intellectual property from EPRI. The Company recorded an increase to additional paid-in capital and a corresponding charge to deferred contract costs of $618,000 and $637,000 in fiscal 1998 and 1997, respectively, relating to these warrants. Warrant expense related to these agreements was approximately $71,000, $148,000, and $234,000 for the fiscal years ended March 31, 2003, 2002 and 2001, respectively.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

13. Cost Sharing Arrangements

The Company has entered into several cost-sharing arrangements with various agencies of the United States government. Funds paid to the Company under these agreements are not reported as revenues but are used to directly offset the Company s research and development and selling, general and administrative expenses, and to purchase capital equipment. The Company recorded costs and funding under these agreements of $1,820,000 and $764,000, respectively, for fiscal 2003, of $1,206,000 and $603,000, respectively, for fiscal 2002, and of $645,000 and $262,000, respectively, for fiscal 2001. At March 31, 2003, total funding received to date under these agreements was $14,178,000. Future funding expected to be received under existing agreements is approximately $2,066,000 subject to continued future funding allocations.

14. Employee Benefit Plans

The Company has implemented a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Any contributions by the Company are discretionary. The company instituted a stock match program in July 1998 under which the Company matched 25% of the first 4% of eligible contributions to the plan. Effective July 1, 2000 this contribution increased to 25% of the first 6% of eligible contributions. Effective July 1, 2001 this contribution increased to 35% of the first 6% of eligible contributions. The Company recorded expense of $360,003, $437,401, and $234,472 in fiscal years 2003, 2002 and 2001, respectively, and corresponding charges to additional paid-in capital related to this program. The Company does not have post-retirement or post-employment benefit plans.

The Company instituted an employee stock purchase plan (ESPP) on October 1, 2000. Employees purchase shares at a discount from fair market value every six months; this is a noncompensatory plan and accordingly no expense was recognized by the Company. Shares issued are recorded under Issuance of Common Stock in the Consolidated Statements of Stockholders Equity.

15. Impairment of Long-lived Assets

In the fourth quarter of fiscal 2003, in accordance with SFAS 144, the Company recorded charges totaling $39.2 million for impairment of the group of long-lived assets associated with the AMSC Wires business segment, specifically the Devens wire manufacturing plant, the capital equipment in that plant, and first generation (1G) wire-related patents.

A number of factors indicated a potential impairment of the asset group, including substantial operating losses incurred and projected future losses associated with the AMSC Wires business segment, the Company s intent to transition to the manufacture of second generation (2G) wire within the next several years and the Company s market capitalization being less than the net book value for a significant period. In the fourth quarter of fiscal 2003, the Company revised its analysis of the probable timing of the transition to 2G wire, determining that the transition would

be accelerated over previous expectations. The acceleration of the timing of the transition was the principal factor indicating a potential impairment.

To determine whether the asset group was impaired, the Company used a probability-weighted multiple scenario cash flow approach based on four potential scenarios that reflected a range of possible outcomes. The estimates used for future cash flows were based on producing and selling only 1G wire and excluded any costs or revenues that would be generated as a result of the transition to 2G wire. The success and timing for transitioning to a 2G wire manufacturing process remain uncertain. This uncertainty impacted the range of possible cash flow outcomes. The scenarios ranged from a long-term delay of the transition to 2G wire to successful introduction of 2G wire on an accelerated time-line. The Company believes that the most likely scenario is a successful transition to the 2G wire manufacturing process in the next few years.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

On the basis of the probability-weighted cash flow analysis, the Company determined that the asset group was impaired and utilized a probability-weighted discounted cash flow as the best estimate of the fair value of the asset group. An impairment charge of $39.2 million was recorded to write down the asset group to its estimated fair value.

In allocating the $39.2 million impairment charge across the individual assets, the Company used an independent appraisal of the value of the property and plant as the current fair value for this asset, and assigned the remainder of the impairment charge on a pro rata basis between equipment and patents.

Summary of Impairment Charge

Building	$ 17,642,105
Equipment	21,217,734
Patents (Other Assets)	371,038
Total Impairment	$ 39,230,877

In conjunction with the impairment, the Company also reviewed and shortened the depreciable lives on the remaining net book value of the wires manufacturing equipment from ten to six years.

16. Restructuring/Pirelli/Other Charges (Fiscal 2002)

Workforce Reduction

In March of fiscal 2002, a restructuring program resulted in the reduction of 99 full-time employees across all business functions at the Company s Massachusetts and Wisconsin locations. The workforce reductions were substantially completed in the fourth quarter of fiscal 2002, although nine affected employees were part of the Company s reported headcount as of March 31, 2002. The Company recorded a workforce reduction charge of $1,548,897 relating primarily to severance and related benefits.

Consolidation of Facilities

In fiscal 2002, the Company recorded a charge of $4,117,161 relating to the consolidation of the Company s Power Quality and Reliability business unit based in Middleton, WI with its Power Electronics business unit based in New Berlin, WI, into one new business unit called Power Electronic Systems. The total charge includes $2,826,403 related to the write-off of fixed assets and $691,100 for a facility lease termination in Middleton, WI. The balance of $599,658 relates to cancelled purchase commitments. All such costs were recorded as restructuring costs.

Pirelli License Costs

In fiscal 2002, the Company recorded a charge of $4,009,890 relating to the announcement of a license agreement with Pirelli to allow the Company to sell its HTS wire to other cable manufacturers in addition to Pirelli. The $4,009,890 charge is shown as Pirelli license costs on the Consolidated Statements of Operations and is comprised of a $2,250,000 cash license payment, 50,000 shares of the Company s common stock (valued at $6.91 per share) that were issued in fiscal 2003, and the forgiveness of $1,375,000 of accounts receivable.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

The restructuring charges and other charges recorded in the fourth quarter of fiscal 2002 are summarized below:

	Total Restructuring & other charges	Cash Payments	Other Adjustments	Balance as of March 31, 2003
Workforce Reduction	$ 1,548,897	$ 1,548,897	$	$
Consolidation of facilities, fixed asset write-offs, & other charges	4,117,161	498,039	3,144,409	474,713
Inventory Write-down	3,464,275		2,212,456	1,251,819
Allowance for Doubtful Accounts	727,028		727,028	
Pirelli License	4,009,890	2,289,390	1,720,500	
	$ 13,867,251	$ 4,336,326	$ 7,804,393	$ 1,726,532

Cash payments for the restructuring activities and other charges were completed within fiscal 2003, except for certain long-term contractual obligations such as the Middleton, WI facility lease payments through the end of third quarter of fiscal 2004. Of the remaining balance of $1,726,532, $474,713 is expected to be paid out in cash.

The inventory write-down and allowance for doubtful accounts charges were classified as Costs of revenue product sales and prototype development contracts and Selling, general and administrative expense, respectively, not as restructuring charges.

17. Business Segment Information

The Company has three reportable business segments AMSC Wires, SuperMachines, and the Power Electronic Systems.

The AMSC Wires (formerly known as HTS Wire) business segment develops and sells HTS wire. The focus of this segment s current development, manufacturing and sales efforts is on HTS wire for power transmission cables, motors, generators, synchronous condensers and specialty magnets.

The SuperMachines (formerly known as Electric Motors and Generators) business segment is developing and commercializing electric motors, generators, and synchronous condensers based on HTS wire. Its primary focus, for motors and generators, is on ship propulsion.

The Power Electronic Systems business segment develops and sells power electronic converters and designs, manufactures and sells integrated systems based on those converters for power quality and reliability solutions and for wind farm applications.

The operating results for the three business segments are as follows:

	Fiscal Year Ended March 31		
Revenues*	**2003**	**2002**	**2001**
AMSC Wires	$ 3,960,823	$ 4,394,285	$ 4,945,140
SuperMachines	6,125,151	5,839,895	2,507,399
Power Electronic Systems	10,934,318	1,415,920	9,314,985
Total	$ 21,020,292	$ 11,650,100	$ 16,767,524

* See footnote 13. Cost share funding is not included in reported revenues.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

Operating (loss)	Fiscal Year Ended March 31,		
	2003	2002	2001
AMSC Wires	$ (66,727,224)	$ (26,143,475)	$ (17,648,181)
SuperMachines	(7,475,982)	(7,747,637)	(8,209,870)
Power Electronic Systems	(12,990,785)	(25,818,528)	(6,943,149)
Unallocated corporate expenses	(1,317,494)	(1,843,204)	(1,594,368)
Total	$ (88,511,485)	$ (61,552,844)	$ (34,395,568)

The assets for the three business segments (plus Corporate cash) are as follows:

	Fiscal Year Ended March 31,	
	2003	2002
AMSC Wires	$ 66,393,042	$ 102,010,166
SuperMachines	4,992,328	6,424,532
Power Electronic Systems	10,544,397	21,160,616
Corporate cash and marketable securities	20,048,872	68,199,610
Total	$ 101,978,639	$ 197,794,924

Other significant segment information is as follows:

Depreciation and amortization	Fiscal Year Ended March 31,		
	2003	2002	2001
AMSC Wires	$ 6,709,830	$ 3,776,152	$ 2,813,963
SuperMachines	571,967	593,545	281,396
Power Electronic Systems	820,339	1,139,346	1,003,545
Total	$ 8,102,136	$ 5,509,043	$ 4,098,904

Capital expenditures	Fiscal Year Ended March 31, 2003	2002
AMSC Wires	$ 7,599,488	$ 60,694,504
SuperMachines	66,835	373,174
Power Electronic Systems	132,912	2,054,498
Total	$ 7,799,235	$ 63,122,176

The accounting policies of the business segments are the same as those described in Note 2, except that certain corporate expenses which we do not believe are specifically attributed or allocable to either business segment have been excluded from the segment operating loss.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

18. Quarterly Financial Data (Unaudited)

	Fiscal year ended March 31, 2003:			
Three Months Ended	**June 30, 2002**	**September 30, 2002**	**December 31, 2002**	**March 31, 2003 ***
Total Revenues	$ 2,860,000	$ 4,480,000	$ 2,751,000	$ 10,929,000
Operating (loss)	$ (11,180,000)	$ (10,502,000)	$ (12,805,000)	$ (54,024,000)
Net loss	$ (10,829,000)	$ (10,222,000)	$ (12,615,000)	$ (53,967,000)
Net loss per common share	$ (0.53)	$ (0.50)	$ (0.60)	$ (2.54)

	Fiscal year ended March 31, 2002:			
Three Months Ended	**June 30, 2002**	**September 30, 2002**	**December 31, 2002**	**March 31, 2003 ***
Total Revenues	$ 1,659,000	$ 3,257,000	$ 3,533,000	$ 3,201,000
Operating (loss)	$ (11,072,000)	$ (10,473,000)	$ (11,545,000)	$ (28,463,000)
Net loss	$ (9,044,000)	$ (9,116,000)	$ (10,884,000)	$ (27,941,000)
Net loss per common share	$ (0.44)	$ (0.45)	$ (0.53)	$ (1.36)

* See discussion on impairment and other charges in footnote 15.

19. New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (EITF 94-3). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. EITF 94-3 allowed for an exit cost liability to be recognized at the date of an entity s commitment to an exit plan. SFAS 146 also requires that liabilities recorded in connection with exit plans be initially measured at fair value. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption encouraged. The Company does not expect the adoption of SFAS 146 to have a material impact on its financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45) Guarantor s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB

Interpretation No. 34. FIN 45 clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing certain guarantees. FIN 45 also requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The accounting requirements for the initial recognition of guarantees are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for all guarantees outstanding, regardless of when they were issued or modified, beginning with periods ending after December 15, 2002. The Company has applied the disclosure provisions of FIN 45 as of December 31, 2002, as required. The adoption of FIN 45 did not have a material effect on the Company s consolidated financial statements for the year end March 31, 2003.

On December 31, 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS 148 amends SFAS 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS (Continued)

stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition and annual disclosure provisions are effective for fiscal years ending after December 15, 2002. The new interim disclosure provisions are effective for the first interim period beginning after December 15, 2002. The Company has complied with the disclosure requirements of SFAS 148.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. Variable interest entities have been commonly referred to as special-purpose entities or off-balance sheet structures. This Interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. The Company does not expect that this Interpretation will have a material impact on its financial position or results of operations.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEETS

	June 30, 2003	March 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,089,265	$ 18,487,752
Accounts receivable, net	6,758,683	5,446,007
Inventory	3,517,696	5,117,786
Prepaid expenses and other current assets	1,297,124	1,264,839
Total current assets	22,662,768	30,316,384
Property and equipment:		
Land	4,021,611	4,021,611
Construction in progress building and equipment	9,523,702	8,773,458
Building	34,102,138	34,102,138
Equipment	32,040,541	31,966,730
Furniture and fixtures	4,158,119	4,167,345
Leasehold improvements	6,246,497	6,246,497
	90,092,608	89,277,779
Less: accumulated depreciation	(29,587,993)	(28,241,982)
Property and equipment, net	60,504,615	61,035,797
Long-term marketable securities	1,012,620	1,561,120
Long-term inventory	3,250,000	3,250,000
Goodwill	1,107,735	1,107,735
Other assets	4,724,384	4,707,603
Total assets	$ 93,262,122	$ 101,978,639
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 10,066,835	$ 9,773,874
Deferred revenue	297,383	1,136,002
Total current liabilities	10,364,218	10,909,876
Long-term deferred revenue	3,250,000	3,250,000
Commitments (Note 9)		
Stockholders equity:		
Common stock, $.01 par value		
Authorized shares 50,000,000; shares issued and outstanding 21,343,720 and 21,293,772 at June 30, 2003 and March 31, 2003, respectively	213,437	212,938
Additional paid-in capital	361,488,915	361,024,689
Deferred compensation	(596,457)	(311,563)
Accumulated other comprehensive income	8,193	2,407

Accumulated deficit	(281,466,184)	(273,109,708)
Total stockholders equity	79,647,904	87,818,763
Total liabilities and stockholders equity	$ 93,262,122	$ 101,978,639

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,	
	2003	**2002**
	(Unaudited)	
Revenues:		
Contract revenue	$ 355,777	$ 131,125
Product sales and prototype development contracts	7,400,530	2,728,848
Total revenues	7,756,307	2,859,973
Costs and expenses:		
Costs of revenue contract revenue	335,640	128,118
Costs of revenue product sales and prototype development contracts	8,272,789	4,230,822
Research and development	4,863,057	6,217,335
Selling, general and administrative	2,704,848	3,463,923
Total costs and expenses	16,176,334	14,040,198
Operating loss	(8,420,027)	(11,180,225)
Interest income	34,519	370,806
Other income (expense), net	29,032	(19,820)
Net loss	$ (8,356,476)	$ (10,829,239)
Net loss per common share		
Basic and diluted	$ (0.39)	$ (0.53)
Weighted average number of common shares outstanding		
Basic and diluted	21,343,720	20,535,175

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30,	
	2003	2002
	(Unaudited)	
Net loss	$ (8,356,476)	$ (10,829,239)
Other comprehensive income (loss)		
Foreign currency translation	9,161	19,827
Unrealized loss on investments	(3,375)	(1,688)
Other comprehensive income	5,786	18,139
Comprehensive loss	$ (8,350,690)	$ (10,811,100)

The accompanying notes are an integral part of the consolidated financial statements.

F-29

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended June 30,	
	2003	**2002**
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (8,356,476)	$ (10,829,239)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	1,615,976	1,520,406
Gain on disposal of PP&E	(2,813)	
Amortization of deferred compensation expense	54,002	34,578
Amortization of deferred warrant costs	13,322	49,421
Changes in operating asset and liability accounts:		
Accounts receivable	(1,312,676)	(93,390)
Inventory current and long-term	1,600,090	67,117
Prepaid expenses and other current assets	(29,874)	(16,047)
Accounts payable and accrued expenses	292,961	(7,582,340)
Deferred revenue current and long-term	(838,619)	(808,928)
Net cash used in operating activities	(6,964,107)	(17,658,422)
Cash flows from investing activities:		
Purchase of property and equipment	(889,799)	(4,787,488)
Proceeds from the sale of property and equipment	27,938	
Sale of long-term marketable securities	551,875	7,089,215
Increase in other assets	(236,901)	(390,375)
Net cash (used in) provided by investing activities	(546,887)	1,911,352
Cash flows from financing activities:		
Net proceeds from issuance of common stock	112,507	249,930
Net cash provided by financing activities	112,507	249,930
Net cash decrease in cash and cash equivalents	(7,398,487)	(15,497,140)
Cash and cash equivalents at beginning of period	18,487,752	37,170,927
Cash and cash equivalents at end of period	$ 11,089,265	$ 21,673,787
Supplemental schedule of cash flow information:		
Noncash issuance of common stock	$ 54,002	$ 34,578

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business:

American Superconductor Corporation (the Company or AMSC), which was formed on April 9, 1987, is a world leader in developing and manufacturing products using superconducting materials and power electronic converters for electric power applications. The focus of the Company s development and commercialization efforts is on electrical equipment for electric utilities, transmission grid operators, industrial and commercial users of electrical power, and commercial and military ships. For large-scale applications, the Company s development efforts are focused on high temperature superconductor (HTS) wire for use in power transmission cables, motors, and generators. The Company is also developing and commercializing electric motors and generators based on its HTS wire. For power quality and reliability applications, the Company is focused on proprietary power electronic converters that rapidly switch, control and modulate power. The Company also designs, manufactures, and sells systems based on those power electronic converters for power quality and reliability solutions. The Company operates in three business segments AMSC Wires, SuperMachines and Power Electronic Systems.

The Company has generated operating losses since its inception in 1987 and expects to continue incurring losses until at least the end of fiscal 2005. Operating losses for the fiscal years ended March 31, 2003, 2002 and 2001 have contributed to net cash used by operating activities of $39,604,957, $26,456,387 and $26,424,059, respectively, for these periods. For the three months ended June 30, 2003, net cash used by operating activities was $6,964,107. The Company s average annual use of cash over this period is greater than our balance of cash, cash equivalents and long-term marketable securities at June 30, 2003 of $12,101,885.

In July 2003, the Company implemented approximately $5 million of reductions in its operating and capital budgets for fiscal 2004, primarily through the elimination of 34 positions, including a reduction in force of 23 employees, or 8% of its workforce. Cuts were also made in controllable expenses and capital equipment purchase plans.

The cash savings from the aforementioned cost reduction actions combined with an increasing level of revenues for the remainder of the fiscal year are expected to lower the Company s quarterly cash usage beginning in the second quarter of fiscal 2004. The revenue increase is supported by the Company s receipt in March 2003 of the three-year 36.5 MW motor contract from the Office of Naval Research as well as its selection in April 2003 by the Department of Energy (DOE) as the prime contractor for an HTS cable project with the Long Island Power Authority (LIPA).

To supplement the Company s anticipated cash needs for operations as well as its investment in the second generation wire development program, the Company has been examining a number of options for raising additional capital. Based on these efforts over the last year, the Company signed in June 2003 non-binding letters of intent with three groups of investors to provide up to $50 million in financing. These letters of intent are subject to satisfactory due diligence by these investors, the completion of formal legal documentation and approval of the financings by the Company s shareholders. The $50 million financing is expected to be comprised of a five-year term loan of up to $30 million to be provided by a corporate finance company and several institutional investors with these amounts secured by the Company s existing assets and additional assets projected to be acquired, excluding accounts receivable and inventory. In addition, three institutional investors have also signed a non-binding letter of intent to provide $10 million in the form of subordinated notes that are convertible into the Company s common stock. The Company has also signed a non-binding letter of intent with a commercial bank to provide up to $10 million in the form of a working capital credit facility that is to be secured by its accounts receivable and inventory.

Each of the investor groups will also be issued warrants to acquire shares of the Company s common stock. The conversion feature of the subordinated convertible notes combined with the warrants will trigger the

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NASDAQ requirement that the Company s shareholders approve this $50 million financing transaction prior to its closing. Consequently, should the Company be able to close this transaction, the earliest this would occur would be the end of September 2003. The Company expects that all of the contemplated financings will be required to close simultaneously. While the Company believes it will be able to complete the $50 million financing transaction, it can make no assurance that such funds will be available, or available under terms acceptable to them, or that its shareholders will approve this financing transaction. In the event that this transaction cannot be completed, the Company is confident that they could obtain conventional mortgage financing on its Devens, MA manufacturing facility that, combined with its available cash, cash equivalents and long-term marketable securities, would be sufficient to satisfy its anticipated cash requirements for at least the next 12 months.

The Company currently derives a portion of its revenue from research and development contracts. The Company recorded contract revenue related to research and development contracts of $355,777 and $131,125 for the three months ended June 30, 2003 and 2002, respectively. In addition, the Company recorded prototype development contract revenues on U.S. Navy and other contracts of $5,549,894 and $2,271,611, which are included under Revenues Product sales and prototype development contracts, in the three months ended June 30, 2003 and 2002, respectively.

Costs of revenue include research and development and selling, general and administrative expenses that are incurred in the performance of these development contracts.

Research and development (R&D) and selling, general and administrative (SG&A) expenses included as costs of revenue for these development contracts were as follows:

	Three Months Ended June 30,	
	2003	**2002**
Research and development expenses	$ 4,754,088	$ 2,087,747
Selling, general and administrative expenses	$ 1,524,654	$ 308,745

2. Basis of Presentation:

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The unaudited consolidated financial statements of the Company presented herein have been prepared in accordance with the SEC s instructions to Form 10-Q and as such do not include all of the information and note disclosures included in annual financial statements prepared in accordance with generally accepted accounting principles. Certain information and footnote disclosure normally included in the Company s annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements, in the opinion of management,

reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for the interim periods ended June 30, 2003 and 2002 and the financial position at June 30, 2003.

The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. It is suggested that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements for the fiscal year ended March 31, 2003 which are contained in the Company s Annual Report on Form 10-K covering the fiscal year ended March 31, 2003.

There has been no material change to the Company s significant accounting policies from those filed in the Form 10-K. Certain prior year amounts have been reclassified to be consistent with the current year presentation.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Stock-Based Compensation Plans and Pro Forma Stock-Based Compensation Expense

The Company applies Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock-based compensation plans. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to stockholders equity.

In October 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation, which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans.

Had compensation cost for awards granted after 1994 under the Company s stock-based compensation plan been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain financial information of the Company would have been as follows:

	For the three months ended June 30,	
	2003	2002
Net loss	$ (8,356,476)	$ (10,829,239)
Add: Stock compensation expense under APB 25	$ 52,927	$ 34,578
Less: Stock compensation, net of tax, had all options been recorded at fair value per SFAS 123	$ (949,757)	$ (1,681,451)
Pro forma net loss	$ (9,253,306)	$ (12,476,112)
Weighted average shares, basic and diluted	21,343,720	20,535,175
Net loss per share, as reported	$ (0.39)	$ (0.53)
Net loss per share, pro forma	$ (0.43)	$ (0.61)

The pro forma amounts include the effects of all activity under the Company s stock-based compensation plans since April 1, 1998. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants:

	For the three months ended June 30,	
	2003	2002
Dividend yield	None	None
Expected volatility	100%	101%
Risk-free interest rate	4.0%	4.0%
Expected life (years)	6.5	6.5

Weighted average fair value of options granted at fair market value during the three months ended June 30,	
2003	$ 3.03
2002	$ 7.24

The above amounts may not be indicative of future expense because amounts are recognized over the vesting period and the Company expects it will have additional grants and related activity under these plans in the future.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Net Loss Per Common Share:

Basic Earnings Per Share (EPS) excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS includes dilution and is computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period. Common equivalent shares include the dilutive effect of stock options and warrants. For the three months ended June 30, 2003 and 2002, common equivalent shares of 4,324,255 and 4,817,851 were not included in the calculation of diluted EPS as their effect was antidilutive.

5. Accounts Receivable:

Accounts receivable at June 30, 2003 and March 31, 2003 consisted of the following:

	June 30, 2003	March 31, 2003
Accounts Receivable (billed)	$ 4,133,828	$ 4,828,214
Accounts Receivable (unbilled)	5,282,340	3,275,278
Less: Allowance for Doubtful Accounts	(2,657,485)	(2,657,485)
Accounts Receivable, net	$ 6,758,683	$ 5,446,007

6. Inventories:

Inventories at June 30, 2003 and March 31, 2003 consisted of the following:

	June 30, 2003	March 31, 2003
Raw materials	$ 763,084	$ 1,217,033
Work-in-progress	2,121,972	2,250,321
Finished goods	632,640	1,650,432

Inventory	$ 3,517,696	$ 5,117,786

7. Long-term Inventory and Deferred Revenue:

Long-term inventory of $3,250,000 represents SMES units that were delivered in fiscal 2001 to one of our customers, Wisconsin Public Service Corporation (WPS), for a total purchase price of $3,787,000, less $537,000 recorded as revenue in the quarter ended December 31, 2002. As the sale of these units is subject to certain return and buyback provisions which expire from 2002 to 2009, the Company is deferring recognition of the revenue related to the remaining $3,250,000 in sales until the applicable buyback provisions lapse. Long-term deferred revenue of $3,250,000 represents the $3,787,000 cash payment received from WPS related to this transaction, less $537,000 recorded as revenue in the third quarter of fiscal 2003.

The buyback provisions, which are subject to a minimum 6-month written notice requirement, began to lapse in the quarter ended December 31, 2002, until which time WPS had the right to return all the units for the full purchase price of $3,787,000. On December 31 of each year after 2002, WPS has the right, subject to a minimum 6-month notice requirement, to sell the units back to the Company at a reduced price. Between January 1, 2003 and the next annual buyback date of December 31, 2003, the repurchase price for the units will be $3,250,000 and that price is further reduced by approximately 12% per year through December 31, 2009.

The Company recorded $537,000 of revenue and an equal amount of cost of revenue in the quarter ended December 31, 2002, as the buyback price transitioned from $3,787,000 to $3,250,000. The Company also recorded a $537,000 reduction in long-term inventory and long-term deferred revenue.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2003 and March 31, 2003 consisted of the following:

	June 30, 2003	March 31, 2003
Accounts payable	$ 4,726,486	$ 3,721,307
Accrued employee stock purchase plan	109,416	199,567
Accrued expenses	4,486,368	5,184,644
Accrued vacation	744,565	668,356
Accounts payable and accrued expenses	$ 10,066,835	$ 9,773,874

9. Commitments

As permitted under Delaware law, the Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving at its request in such capacity. The term of the indemnification period is for the officer s or director s lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy that limits its exposure and enables it to recover a portion of future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to March 31, 2003. Accordingly, the Company has no liabilities recorded for these agreements as of June 30, 2003.

10. Cost-Sharing Arrangements:

The Company has entered into several cost-sharing arrangements with various agencies of the United States government. Funds paid to the Company under these agreements are not reported as revenues but are used to directly offset the Company s research and development and selling, general and administrative expenses, and to purchase capital equipment. The Company recorded costs and funding under these agreements of $312,719 and $103,321 for the three months ended June 30, 2003 and 2002, respectively. At June 30, 2003, total funding received to date under these agreements was $14,491,000. Future funding expected to be received under existing agreements is approximately $1,753,000, subject to continued future funding allocations.

11. Business Segment Information:

The Company has three reportable business segments AMSC Wires, SuperMachines, and Power Electronic Systems.

The AMSC Wires business segment develops, manufactures and sells HTS wire. The focus of this segment s current development, manufacturing and sales efforts is on HTS wire for power transmission cables, motors, generators, synchronous condensers and specialty magnets.

The SuperMachines business segment is developing and commercializing electric motors, generators, and synchronous condensers based on HTS wire. Its primary focus for motors and generators is on ship propulsion.

The Power Electronic Systems business segment develops and sells power electronic converters and designs, manufactures and sells integrated systems based on those converters for power quality and reliability solutions and for wind farm applications.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The operating results for the three business segments are as follows:

	Three Months Ended June 30,	
	2003	**2002**
Revenues		
AMSC Wires	$ 1,097,124	$ 217,633
SuperMachines	5,549,894	1,535,849
Power Electronic Systems	1,109,289	1,106,491
Total	$ 7,756,307	$ 2,859,973

	Three Months Ended June 30,	
	2003	**2002**
Operating income (loss)		
AMSC Wires	$ (6,333,675)	$ (6,979,978)
SuperMachines	11,858	(1,762,721)
Power Electronic Systems	(1,824,065)	(2,108,006)
Unallocated corporate expense	(274,145)	(329,520)
Total	$ (8,420,027)	$ (11,180,225)

The assets for the three business segments (plus Corporate Cash) are as follows:

	For the period ended	
	June 30, 2003	**March 31, 2003**
Assets		
AMSC Wires	$ 64,428,601	$ 66,393,042

SuperMachines	7,037,906	4,992,328
Power Electronic Systems	9,693,730	10,544,397
Corporate cash and marketable securities	12,101,885	20,048,872
Total	$ 93,262,122	$ 101,978,639

The accounting policies of the business segments are the same as those for the consolidated Company, except that certain corporate expenses which the Company does not believe are specifically attributable or allocable to any of the three business segments have been excluded from the segment operating income (loss).

12. New Accounting Pronouncements:

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. Variable interest entities have been commonly referred to as special-purpose entities or off-balance sheet structures. This Interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

returns or both. The Company does not expect that this Interpretation will have a material impact on its financial position or results of operations.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150). This accounting standard establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. It requires that certain financial instruments that were previously classified as equity now be classified as a liability. This accounting standard is effective for financial instruments entered into or modified after May 31, 2003, and otherwise at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of SFAS No. 150 will have an impact on its financial position or results of operations.

Table of Contents

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the expenses expected to be incurred by American Superconductor in connection with the registration and distribution of the securities registered hereby, all of which expenses will be borne by American Superconductor. Except for the SEC registration fee and NASD filing fee, all such expenses are estimated.

	Amount
SEC registration fee	$ 4,317
NASD filing fee	$ 5,836
Printing expenses	$ 75,000
Legal fees and expenses	$ 200,000
Accounting fees and expenses	$ 100,000
NASDAQ National Market fees	$ 22,500
Miscellaneous expenses	$ 92,347
Total	$ 500,000

Item 15. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of Delaware provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

Article V of the registrant s By-laws provides that a director or officer of the registrant (a) shall be indemnified by the registrant against all expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any litigation or other legal proceeding (other than an action by or in the right of the registrant) brought against him by virtue of his position as a director or officer of the registrant if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful and (b) shall be indemnified by the registrant against expenses (including attorneys fees) incurred in connection with the defense or settlement of any action or suit by or in the right of the registrant by virtue of his position as a director or officer of the registrant if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the registrant, except that no indemnification shall be made with respect to

any such matter as to which such director or officer shall have been adjudged to be liable to the registrant, unless and only to the extent that a court determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. Notwithstanding the foregoing, to the extent that a director or officer has been successful, on the merits or otherwise, he shall be indemnified against expenses (including attorneys fees) actually and reasonably incurred by him in connection therewith. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the registrant upon receipt of an undertaking by the director or officer to repay such amount if the registrant ultimately determines that he is not entitled to indemnification.

Table of Contents

Indemnification shall be made by the registrant upon a determination that the applicable standard of conduct required for indemnification has been met and that indemnification of a director or officer is proper. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to the action, or (b) if such a quorum is not obtainable, or if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders of the registrant.

Article V of the registrant s By-laws further provides that the indemnification provided therein is not exclusive, and provides that to the extent the Delaware General Corporation Law is amended or supplemented, Article V shall be amended automatically and construed so as to permit indemnification and advancement of expenses to the fullest extent permitted by such law.

Article EIGHTH of the registrant s Certificate of Incorporation provides that no director of the registrant shall be personally liable to the registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, provided, that a director shall remain liable (i) for any breach of such director s duty of loyalty to the registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intention misconduct or a knowing violation of law, (iii) for participation in a Board of Directors action authorizing an unlawful dividend or unlawful stock purchase or redemption under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which such director derived an improper personal benefit.

The registrant has a directors and officers liability insurance policy covering certain liabilities that may be incurred by its directors and officers.

Item 16. Exhibits.

The following exhibits are filed with this registration statement.

Exhibit Number	Description
1.1	Form of Underwriting Agreement (1)
4.1	Restated Certificate of Incorporation of the registrant (2)
4.2	Amended and Restated By-Laws of the registrant (3)
4.3	Form of common stock certificate (4)
4.4	Rights Agreement dated as of October 30, 1998 between the registrant and American Stock Transfer & Trust Company, as Rights Agent (5)
4.5	Amendment No. 1 to Rights Agreement dated as of January 29, 1999 between the registrant and American Stock Transfer & Trust Company, as Rights Agent (6)
5.1	Opinion of Hale and Dorr LLP*
23.1	Consent of Hale and Dorr LLP (included in the opinion filed as Exhibit 5.1)*
23.2	Consent of PricewaterhouseCoopers LLP
24.1	Powers of Attorney*

(1) To be filed by amendment.
(2) Incorporated by reference to Exhibits to the registrant s Registration Statement on Form S-3, as amended (File No. 333-95261).
(3) Incorporated by reference to Exhibits to the registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2000 (Commission File No. 000-19672).
(4) Incorporated by reference to Exhibits to the registrant s Registration Statement on Form S-1, as amended (File No. 33-43647).

Table of Contents

(5) Incorporated by reference to Exhibit to the registrant s Registration Statement on Form 8-A filed with the Commission on November 2, 1998 (Commission File No. 000-19672).
(6) Incorporated by reference to Exhibit to the registrant s Registration Statement on Form 8-A/A filed with the Commission on March 12, 1999 (Commission File No. 000-19672).
* Previously filed.

Item 17. Undertakings.

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

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

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-3 and has duly caused Amendment No. 1 to this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Westborough, state of Massachusetts, on the 12th day of September, 2003.

AMERICAN SUPERCONDUCTOR CORPORATION

By: /s/ GREGORY J. YUREK

Gregory J. Yurek
Chairman of the Board, President and Chief

Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ GREGORY J. YUREK **Gregory J. Yurek**	Chairman of the Board, President, Chief Executive Officer and Director (principal executive officer)	September 12, 2003
/s/ KEVIN M. BISSON **Kevin M. Bisson**	Senior Vice President and Chief Financial Officer (principal financial officer)	September 12, 2003
/s/ THOMAS M. ROSA **Thomas M. Rosa**	Vice President of Finance and Accounting (principal accounting officer)	September 12, 2003

II-4

Table of Contents

Signature	Title	Date
* **Albert J. Baciocco, Jr.**	Director	September 12, 2003
* **Frank Borman**	Director	September 12, 2003
* **Peter O. Crisp**	Director	September 12, 2003
* **Richard Drouin**	Director	September 12, 2003
* **Gérard Menjon**	Director	September 12, 2003
* **Andrew G.C. Sage, II**	Director	September 12, 2003
* **John B. Vander Sande**	Director	September 12, 2003

By: /s/ KEVIN M. BISSON

Kevin M. Bisson Attorney-in-Fact

II-5

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
1.1	Form of Underwriting Agreement (1)
4.1	Restated Certificate of Incorporation of the registrant (2)
4.2	Amended and Restated By-Laws of the registrant (3)
4.3	Form of common stock certificate (4)
4.4	Rights Agreement dated as of October 30, 1998 between the registrant and American Stock Transfer & Trust Company, as Rights Agent (5)
4.5	Amendment No. 1 to Rights Agreement dated as of January 29, 1999 between the registrant and American Stock Transfer & Trust Company, as Rights Agent (6)
5.1	Opinion of Hale and Dorr LLP*
23.1	Consent of Hale and Dorr LLP (included in the opinion filed as Exhibit 5.1)*
23.2	Consent of PricewaterhouseCoopers LLP
24.1	Powers of Attorney*

(1) To be filed by amendment.

(2) Incorporated by reference to Exhibits to the registrant s Registration Statement on Form S-3, as amended (File No. 333-95261).

(3) Incorporated by reference to Exhibits to the registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2000 (Commission File No. 000-19672).

(4) Incorporated by reference to Exhibits to the registrant s Registration Statement on Form S-1, as amended (File No. 33-43647).

(5) Incorporated by reference to Exhibit to the registrant s Registration Statement on Form 8-A filed with the Commission on November 2, 1998 (Commission File No. 000-19672).

(6) Incorporated by reference to Exhibit to the registrant s Registration Statement on Form 8-A/A filed with the Commission on March 12, 1999 (Commission File No. 000-19672).

* Previously filed.