

Resource Capital Corp.  
Form S-11/A  
December 08, 2006  
Table of Contents

As filed with the Securities and Exchange Commission on December 8, 2006

Registration No. 333-138990

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**AMENDMENT**

**No. 1 to**

**FORM S-11**

**FOR REGISTRATION**

*UNDER*

*THE SECURITIES ACT OF 1933*

*OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES*

---

**RESOURCE CAPITAL CORP.**

(Exact name of registrant as specified in its governing instruments)

---

712 Fifth Avenue

10<sup>th</sup> Floor

New York, NY 10019

(212) 974-1708

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

---

**Jonathan Z. Cohen**

**Chief Executive Officer**

**712 Fifth Avenue**

**10<sup>th</sup> Floor**

**New York, New York 10019**

**(212) 974-1708**

**(212) 245-6372 (Facsimile)**

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

---

*Copies to:*

**J. Baur Whittlesey, Esq.**

**Lisa A. Ernst, Esq.**

**Ledgewood**

**1900 Market Street**

**Suite 750**

**Philadelphia, PA 19103**

**(215) 731-9450**

**(215) 735-2513 (Facsimile)**

**Larry P. Medvinsky, Esq.**

**Clifford Chance US LLP**

**31 West 52<sup>nd</sup> Street**

**New York, NY 10019**

**(212) 878-8149**

**(212) 878-8375 (Facsimile)**

---

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

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

If this form is a post-effective amendment filed pursuant to Rule 462(d) 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 delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

Edgar Filing: Resource Capital Corp. - Form S-11/A

The registrant hereby amends this registration statement on such date 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 or until the registration statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

---

**Table of Contents**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, nor is it a solicitation of an offer to buy these securities, in any state in which the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED DECEMBER 8, 2006**

**PRELIMINARY PROSPECTUS**

**6,000,000 Shares  
Common Stock**

---

We are a commercial real estate specialty finance company that qualifies as a real estate investment trust, or REIT, for federal income tax purposes. We are externally managed and advised by Resource Capital Manager, Inc., an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI).

Our common stock is listed on the New York Stock Exchange under the symbol RSO. The last reported sale price on December 7, 2006 was \$16.92 per share.

To assist us in qualifying as a REIT, ownership of our common stock by any person is generally limited to 9.8% in value or in number of shares, whichever is more restrictive, subject to our board's ability to grant waivers to this limitation. In addition, our common stock must be beneficially owned by more than 100 persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year, and no more than 50% of the value of our outstanding common stock may be owned, directly or constructively, by five or fewer individuals at any time during the second half of any taxable year.

**Investing in our common stock involves risks. See Risk Factors beginning on page 25 of this prospectus for a discussion of these risks.**

---

	<b>Per share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to us (before expenses)	\$	\$

We have granted the underwriters an option to purchase up to an additional 900,000 shares of our common stock at the public offering price, less underwriting discounts and commissions, within 30 days after the date of this prospectus solely to cover over-allotments, if any.

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

Delivery of the shares of our common stock is expected to be made in book-entry form on or about \_\_\_\_\_, 2006.

**Citigroup**

**Credit Suisse**

**Friedman Billings Ramsey**

**JPMorgan**

The date of this prospectus is

, 2006

**Table of Contents**

**TABLE OF CONTENTS**

<u>SUMMARY</u>	1
<u>Our Company</u>	1
<u>Our Investment Portfolio</u>	3
<u>Business Strengths</u>	7
<u>Summary Risk Factors</u>	7
<u>Business Strategy</u>	9
<u>The Manager</u>	10
<u>Conflicts of Interest in Our Relationship with the Manager and Resource America</u>	11
<u>Resolution of Potential Conflicts of Interest in Allocation of Investment Opportunities</u>	12
<u>Our Financing Strategy</u>	13
<u>Management Agreement</u>	14
<u>Distribution Policy</u>	16
<u>Exclusion from Regulation under the Investment Company Act</u>	17
<u>Qualification as a REIT</u>	18
<u>Our Formation and Structure</u>	19
<u>Our Corporate Information</u>	19
<u>The Offering</u>	22
<u>Summary Consolidated Financial Information</u>	23
<u>RISK FACTORS</u>	25
<u>Risks Related to Our Business</u>	25
<u>Risks Related to Our Investments</u>	30
<u>Risks Related to this Offering</u>	39
<u>Risks Related to Our Organization and Structure</u>	41
<u>Tax Risks</u>	43
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	49
<u>USE OF PROCEEDS</u>	50
<u>CAPITALIZATION</u>	51
<u>PRICE RANGE OF OUR COMMON STOCK AND DISTRIBUTIONS</u>	52
<u>DISTRIBUTION POLICY</u>	53
<u>SELECTED CONSOLIDATED FINANCIAL INFORMATION</u>	54
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION</u>	56
<u>BUSINESS</u>	95
<u>Our Company</u>	95
<u>Our Investment Portfolio</u>	97
<u>Business Strengths</u>	97
<u>Business Strategy</u>	98
<u>Investment Strategy</u>	99
<u>The Manager</u>	105
<u>Asset Management and Administrative Resources of the Manager and Resource America</u>	106
<u>Investment Process</u>	107
<u>Our Financing Strategy</u>	111
<u>Competition</u>	114
<u>Our Formation and Structure</u>	114
<u>Our Corporate Information</u>	115
<u>Exclusion from Regulation under the Investment Company Act</u>	115
<u>Policies with Respect to Certain Other Activities</u>	117
<u>Legal Proceedings</u>	117

**Table of Contents**

<u>MANAGEMENT</u>	118
<u>Directors and Executive Officers</u>	118
<u>Other Significant Personnel</u>	120
<u>Investment Committee</u>	122
<u>Board Committees</u>	122
<u>Director Compensation</u>	123
<u>Executive Compensation</u>	123
<u>2005 Stock Incentive Plan</u>	123
<u>Indemnification and Limitation on Liability; Insurance</u>	125
<u>Management Agreement</u>	126
<u>Conflicts of Interest in Our Relationship with the Manager and Resource America</u>	132
<u>Resolution of Potential Conflicts of Interest in Allocation of Investment Opportunities</u>	134
<u>PRINCIPAL STOCKHOLDERS</u>	135
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	137
<u>DESCRIPTION OF CAPITAL STOCK AND WARRANTS</u>	138
<u>General</u>	138
<u>Common Stock</u>	138
<u>Warrants</u>	138
<u>Power to Reclassify Unissued Shares of Our Capital Stock</u>	138
<u>Power to Issue Additional Shares of Common Stock and Preferred Stock</u>	139
<u>Restrictions on Ownership and Transfer</u>	139
<u>Transfer Agent and Registrar</u>	141
<u>Registration Rights</u>	141
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	142
<u>Rule 144</u>	142
<u>Rule 710</u>	142
<u>Lock-Up Agreements</u>	142
<u>Registration Rights</u>	143
<u>CERTAIN PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS</u>	144
<u>Number of Directors; Vacancies; Removal</u>	144
<u>Action by Stockholders</u>	144
<u>Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals</u>	144
<u>Calling of Special Meetings of Stockholders</u>	145
<u>Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws</u>	145
<u>No Appraisal Rights</u>	145
<u>Control Share Acquisitions</u>	145
<u>Business Combinations</u>	146
<u>Subtitle 8</u>	147
<u>FEDERAL INCOME TAX CONSEQUENCES OF OUR QUALIFICATION AS A REIT</u>	148
<u>Taxation of Our Company</u>	148
<u>Requirements for Qualification</u>	150
<u>Gross Income Tests</u>	154
<u>Asset Tests</u>	158
<u>Distribution Requirements</u>	161
<u>Recordkeeping Requirements</u>	162
<u>Failure to Qualify</u>	162
<u>Taxable REIT Subsidiaries</u>	162
<u>Taxation of Taxable U.S. Stockholders</u>	163

**Table of Contents**

<u>Taxation of U.S. Stockholders on the Disposition of Common Stock</u>	165
<u>Capital Gains and Losses</u>	165
<u>Information Reporting Requirements and Backup Withholding</u>	165
<u>Taxation of Tax-Exempt Stockholders</u>	166
<u>Taxation of Non-U.S. Stockholders</u>	166
<u>Sunset of Reduced Tax Rate Provisions</u>	168
<u>State and Local Taxes</u>	168
<u>UNDERWRITING</u>	169
<u>LEGAL MATTERS</u>	173
<u>EXPERTS</u>	173
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	173
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

---

*No dealer, salesperson or other individual has been authorized to give any information or make any representations not contained in this prospectus in connection with the offering made by this prospectus. If given or made, such information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of our securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this prospectus or in the affairs of our company since the date hereof.*



**Table of Contents**

**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including the information set forth in Risk Factors, for a more complete understanding of this offering. Except where the context suggests otherwise, the terms we, us and our refer to Resource Capital Corp. and its subsidiaries, Manager refers to Resource Capital Manager, Inc., our external manager and Resource America refers to Resource America, Inc. and its affiliated companies, including the Manager. Unless indicated otherwise, the information in this prospectus assumes (i) the common stock to be sold in this offering is to be sold at \$16.92 per share, which is the last reported sales price per share on the New York Stock Exchange, Inc., or NYSE, on December 7, 2006 and (ii) no exercise by the underwriters of their option to purchase up to an additional 900,000 shares of our common stock solely to cover over-allotments, if any.*

**Our Company**

We are a commercial real estate specialty finance company that qualifies as a real estate investment trust, or REIT, for federal income tax purposes. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of commercial real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

Our investments target the following asset classes:

**Asset class**

Commercial real estate-related assets

**Principal investments**

First mortgage loans, which we refer to as whole loans

First priority interests in first mortgage real estate loans, which we refer to as A notes

Subordinated interests in first mortgage real estate loans, which we refer to as B notes

Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party financing

Residential real estate-related assets

Commercial mortgage-backed securities, which we refer to as CMBS

Residential mortgage-backed securities, which we refer to as ABS-RMBS

Commercial finance assets

Senior secured corporate loans, which we refer to as bank loans

## Edgar Filing: Resource Capital Corp. - Form S-11/A

Other asset-backed securities, which we refer to as other ABS, backed principally by small business and bank loans and, to a lesser extent, by consumer receivables

Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes

Trust preferred securities of financial institutions

Debt tranches of collateralized debt obligations, which we refer to as CDOs

Private equity investments, principally issued by financial institutions.

## **Table of Contents**

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets and hedge interest rate risks. We generate revenues from the interest we earn on our commercial real estate-related assets, residential real estate-related assets and commercial finance assets. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income will depend on our ability to control these expenses relative to our revenue. In our commercial real estate loan portfolio, we use repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as a long-term financing source. In our ABS-RMBS, CMBS, other ABS, bank loans and equipment leases and notes, we use warehouse facilities as a short-term financing source and CDOs and, to a lesser extent, other term financing as a long-term financing source. We expect that our other term financing will consist of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs.

Before October 2, 2006, we had a significant portfolio of ABS-RMBS which were guaranteed by federally chartered entities, which we refer to as agency ABS-RMBS. In order to redeploy the capital we had invested in this asset class into higher-yielding asset classes, we entered into an agreement to sell this portfolio on September 27, 2006. The sale settled on October 2, 2006, and we have no remaining agency ABS-RMBS. We had financed the acquisition of our agency ABS-RMBS with short-term repurchase arrangements. We also had sought to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency ABS-RMBS and the maturities and repricing dates of the repurchase agreements we used to finance them through derivative instruments, principally floating-to-fixed interest rate swap agreements and interest rate cap agreements. We terminated these derivatives upon completion of the sale of our agency ABS-RMBS portfolio.

On March 8, 2005, we received net proceeds of \$214.8 million from a private placement of 15,333,334 shares of common stock. On February 10, 2006, we received net proceeds of \$27.3 million from our initial public offering of 4,000,000 shares of common stock. These shares included 1,879,200 shares sold by selling stockholders. As of September 30, 2006, we had invested 20.3% of our portfolio in commercial real estate-related assets, 48.2% in ABS-RMBS and 31.5% in commercial finance assets. As a result of the October 2, 2006 settlement of our agency ABS-RMBS portfolio, our portfolio composition after the third quarter has shifted so that, as of that date and giving effect to the sale, we had invested 30.3% of our portfolio in commercial real estate-related assets, 22.5% in ABS-RMBS and 47.2% in commercial finance assets.

We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. Credit quality refers to the probability that a loan will be repaid in a timely manner. In general, as credit quality decreases, yields increase to compensate for increased default risk. If we are unable to maintain the credit quality of our portfolio, we will be subject to increased default risk, including the risk of payment defaults. If we experience payment defaults, our revenues will be reduced and our costs, particularly costs we incur to enforce our rights with respect to defaulting assets, may increase, thereby reducing our earnings.

Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes. To illustrate, after giving effect to the agency ABS-RMBS portfolio settlement on October 2, 2006, our equity was invested 68.0% in commercial real estate-related assets, 21.7% in commercial finance assets and 10.3% in ABS-RMBS. We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. Investing in multiple asset classes does not reduce or eliminate many of the risks associated with our investment portfolio such as geographic concentration risk and credit risk. We may change our investment strategies and policies, and the percentage of assets that may be invested in each asset class, without a vote of our stockholders.

**Table of Contents**

Because we elected and qualified to be taxed as a REIT and intend to operate our business so as to be excluded from regulation under the Investment Company Act of 1940, as amended, we are required to invest at least 55% of our assets in qualifying real estate assets, such as whole pool certificates which represent the entire beneficial interest in an underlying pool of mortgage loans, A notes, certain B notes with foreclosure rights on the underlying mortgages, certain mezzanine debt that is the functional equivalent of second mortgage loans, mortgage loans and other liens on and interests in real estate. Therefore, the percentage of our assets we may invest in other mortgage-backed securities, or MBS, other B notes, other mezzanine debt, other ABS, bank loans, equipment leases and notes, trust preferred securities, private equity and other types of investments is limited, unless those investments comply with federal income tax requirements for REIT qualification and requirements for exclusion from Investment Company Act regulation.

**Our Investment Portfolio**

As of September 30, 2006, excluding the agency ABS-RMBS portfolio we agreed to sell on September 27, 2006 and settled on October 2, 2006, our investment portfolio consisted of the following (dollars in thousands):

	Amortized cost	Estimated fair value	Percent of our total investments <sup>(1)</sup>	Weighted average coupon <sup>(1)</sup>
<b>Commercial real estate-related assets</b>				
Whole loans	75,821	75,821	4.92%	8.50%
A notes	42,517	42,517	2.76%	6.64%
B notes	162,171	162,171	10.52%	8.55%
Mezzanine loans	159,146	159,146	10.32%	8.24%
CMBS	27,954	27,388	1.78%	5.53%
Total commercial real estate-related assets	467,609	467,043	30.30%	8.09%
<b>Residential real estate-related assets</b>				
ABS-RMBS	346,988	347,078	22.52%	6.87%
Total residential real estate-related assets	346,988	347,078	22.52%	6.87%
<b>Commercial finance assets</b>				
Bank loans	614,947	613,885	39.83%	7.73%
Other ABS	21,452	21,418	1.39%	6.97%
Equipment leases and notes	91,909	91,909	5.96%	8.13%
Total commercial finance assets	728,308	727,212	47.18%	7.75%
Total	\$ 1,542,905	\$ 1,541,333	100.00%	8.54%

(1) Based on estimated fair value.

Our strategy in each of our asset classes is as follows:

***Commercial real estate-related investments***

*Whole loans.* We originate first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enable us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan, consisting of an A note, B notes, mezzanine loans or other participations, which we may hold or sell to third parties. We do not expect to obtain ratings on these investments until we aggregate and finance them through a

## Edgar Filing: Resource Capital Corp. - Form S-11/A

CDO transaction. We expect our whole loan investments to have loan to value, or LTV, ratios of up to 85%. As of September 30, 2006, we held four whole loans with an estimated fair value of \$75.8 million, or 4.92% of our total investments. The loans had an original weighted average LTV ratio of 80.8%. These investments are consistent with our strategic target for this asset class.

---

**Table of Contents**

*Senior interests in whole loans (A notes).* We invest in senior interests in whole loans, referred to as A notes, either directly originated or purchased from third parties. A notes generally consist of either senior participations in, or a component note at the senior position within, a first mortgage. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our A note investments to have LTV ratios of up to 70%.

As of September 30, 2006 we held two A notes with an estimated fair value of \$42.5 million, or 2.76% of our total investments. The loans had an original weighted average LTV ratio of 57.5%. These investments are consistent with our strategic target for this asset class.

*Subordinate interests in whole loans (B notes).* We invest in subordinated interests in whole loans, referred to as B notes, either directly originated or purchased from third parties. B notes are secured by a first mortgage and subordinated to the A note. The subordination of a B note is generally evidenced by an intercreditor or participation agreement between the holders of the related A note and the B note. B note lenders have the same obligations, collateral and borrower as the A note lenders, but are typically subordinated in recovering upon default. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our B note investments to have LTV ratios of between 55% and 80%.

As of September 30, 2006, we held ten B note investments with an estimated fair value of \$162.2 million, or 10.52% of our total investments. The loans had an original weighted average LTV ratio of 73.9%. These investments are consistent with our strategic target for this asset class.

*Mezzanine financing.* We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our mezzanine investments to have LTV ratios of between 65% and 90%.

As of September 30, 2006, we held 14 mezzanine loans with an estimated fair value of \$159.1 million, or 10.32% of our total investments. The loans had an original weighted average LTV ratio of 79.8%. These investments are consistent with our strategic target for this asset class.

*CMBS.* We invest in CMBS, which are securities that are secured by or evidence interests in a pool of mortgage loans secured by commercial properties. These securities may be senior or subordinate and may be either investment grade or non-investment grade. We expect that most of the CMBS in which we invest will be rated between Aaa and Baa3 by Moody's Investor Services, Inc., or Moody's, and between AAA and BBB- by Standard and Poor's Rating Service, or Standard and Poor's, although certain of our investments have been rated only by Moody's, and we may invest in related securities that are below investment grade.

As of September 30, 2006, we had invested \$27.4 million on an estimated fair value basis, or 1.78% of our total investments, in CMBS. This portfolio had a weighted-average rating factor, or WARF, of 346, and a weighted average rating between Baa1 and Baa2 by Moody's and BBB by Standard and Poor's. WARF is the quantitative equivalent of Moody's traditional rating categories and is used by Moody's in its credit enhancement calculations for securitization transactions. Our strategy for this class targets a maximum WARF of 610. As of September 30, 2006, the CMBS we had purchased were consistent with our strategic target for this asset class.

---

**Table of Contents**

***Residential real estate-related investments***

*ABS-RMBS.* We invest in ABS-RMBS, which are securities that are secured by or evidence interests in a pool of residential mortgage loans. These securities may be issued by government sponsored agencies or other entities and may or may not be rated investment grade by rating agencies. The principal difference between ABS-RMBS and agency ABS-RMBS is that the mortgages underlying the ABS-RMBS do not conform to agency guidelines as a result of documentation deficiencies, high LTV ratios or credit quality issues. We expect that our ABS-RMBS will include loan pools with home equity loans that are secured by subordinate liens, as well as loan pools that are secured by first and second lien residential mortgage loans secured by the related mortgage properties. The underlying residential borrowers can be characterized as sub-prime borrowers with lower FICO scores, generally below 625, mid-prime borrowers with mid-range scores, generally between 626 and 675, or prime borrowers with the highest FICO scores, generally above 675. We expect that most of the ABS-RMBS in which we invest will be rated between AAA and Ba2 by Moody's and between AAA and BB by Standard and Poor's, although some of our investments may be rated only by Moody's.

Our investment strategy within our ABS-RMBS portfolio includes an analysis of factors including credit, relative value, supply and demand, costs of hedging, forward London Inter-Bank Offered Rate, or LIBOR, interest rate volatility and the overall shape of the U.S. treasury and interest rate swap yield curves.

As of September 30, 2006, excluding the agency ABS-RMBS portfolio we sold on September 27, 2006, which settled on October 2, 2006, we had invested \$347.1 million on a fair value basis, or 22.52% of our total investments, in ABS-RMBS with a weighted average original FICO score of 636. Our ABS-RMBS portfolio had a WARF of 410, or a weighted average rating between A2 and Ba2 by Moody's and between A+ and BB+ by Standard and Poor's, and an original LTV ratio of 79.92%. As of September 30, 2006, the ABS-RMBS we had purchased were consistent with our strategic target for this asset class.

***Commercial finance investments***

*Bank loans.* We acquire senior secured loans that have a first priority pledge of specified collateral and are senior to other obligations of the borrower. We also acquire subordinated loans which provide a significantly higher yield than first lien loans in exchange for higher risk in the form of a subordinated claim on collateral. We may also invest in corporate bonds which pay holders a specified amount, known as the coupon, periodically until maturity of the bonds, when the face value is due. We expect that most of the bank loans in which we invest will be rated between Ba3 and Caa1 by Moody's and between BB- and CCC+ by Standard and Poor's, although some of our investments may only be rated by Moody's.

As of September 30, 2006, we had invested \$613.9 million on a fair value basis, or 39.83% of our total investments, in bank loans. This portfolio had a WARF of 2,143 or a weighted average rating between Ba1 and Caa1 by Moody's and between BBB- and CCC- by Standard & Poor's. As of September 30, 2006, the bank loans we had purchased were consistent with our strategic target for this asset class.

*Other ABS.* We invest in other ABS, principally securitizations or CDOs backed by small business loans and trust preferred securities of financial institutions such as banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITs. We expect that most of the other ABS in which we invest will be rated between Aaa and Ba2 by Moody's and between AAA and BB by Standard and Poor's, although some of our investments may be rated only by Moody's.

**Table of Contents**

As of September 30, 2006, we had invested \$21.4 million on a fair value basis, or 1.39% of our total investments, in other ABS. This portfolio had a WARF of 407 or a weighted average rating between Baa2 and Ba2 by Moody's and between BBB and BBB- by Standard & Poor's. As of September 30, 2006, the other ABS we had purchased were consistent with our strategic target for this asset class.

*Equipment leases and notes.* We invest in small- and middle-ticket full payout equipment leases and notes. Under full payout leases and notes, the payments we receive over the term of the financing will return our invested capital plus an appropriate return without consideration of the residual value and the obligor will acquire the equipment at the end of the payment term. We focus on leased equipment and other assets that are essential for businesses to conduct their operations so that end users will be highly motivated to make required monthly payments.

As of September 30, 2006, we held \$91.9 million on a fair value basis, or 5.96% of our total investments, of equipment leases and notes, net of unearned income.

*Trust preferred securities.* We may invest in trust preferred securities, with an emphasis on securities of small- to middle-market financial institutions, including banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITs. Our focus will be to invest in trust preferred securities issued by financial institutions that have favorable characteristics with respect to market demographics, cash flow stability and franchise value.

As of September 30, 2006, we had no trust preferred security investments.

*Collateralized Debt Obligations.* We invest in the debt tranches of CDOs collateralized by CMBS, ABS-RMBS, other ABS and bank loans. To avoid any actual or perceived conflicts of interest with the Manager and Resource America, we will not invest in any CDO structured or co-structured by them other than those structured or co-structured on our behalf.

As of September 30, 2006, we had invested \$18.8 million in CDO transactions, which are included in other ABS. We currently expect to leverage our investments in CDOs in the range of 10 to 15 times.

*Private equity.* We may invest in direct, non-controlling purchases of private equity and purchases of interests in private equity funds. We expect that any such investments will consist of securities issued by financial institutions, particularly banks and savings and thrift institutions.

As of September 30, 2006, we had no private equity investments.

The table below summarizes our borrowings as of September 30, 2006, excluding borrowings repaid upon the settlement of our agency ABS-RMBS portfolio on October 2, 2006 (dollars in thousands):

	Outstanding borrowings	Weighted average borrowing rate	Weighted average remaining maturity	Value of collateral
Repurchase agreements	\$ 53,906	6.57%	18 days	\$ 71,462
CDOs <sup>(1)</sup>	1,206,751	5.85%	24.8 years	1,349,594
Secured term facility	87,080	6.34%	3.5 years	91,909
Unsecured junior subordinated debentures <sup>(2)</sup>	51,548	9.39%	29.9 years	
<b>Total</b>	<b>\$ 1,399,285</b>	<b>6.04%</b>		<b>\$ 1,512,965</b>



## Edgar Filing: Resource Capital Corp. - Form S-11/A

- (1) Amount represents principal outstanding of \$1.2 billion less unamortized issuance costs of \$18.7 million as of September 30, 2006.
- (2) Amount represents junior subordinated debentures issued to Resource Capital Trust I in connection with its issuance of trust preferred securities in May 2006 and to RCC Trust II in connection with its issuance of trust preferred securities in September 2006.

## **Table of Contents**

### **Business Strengths**

*Experienced senior management team.* Our senior management team, led by Edward E. Cohen and Jonathan Z. Cohen, has significant experience in real estate investment, commercial lending, financing, securitization, capital markets, transaction structuring and risk management. We believe that the broad experience of our executive officers will enable us to generate investment opportunities across all of our targeted asset classes and effectively manage and finance our portfolio. Before its experience in managing us, the Manager had not managed a REIT.

*Deep experience in targeted asset classes.* Through the Manager and Resource America, we have access to a team of 71 investment professionals that has broad experience originating, investing in, managing and financing commercial and residential real estate-related assets and commercial finance assets.

*Established asset management platform.* We benefit from access to Resource America's mature administrative infrastructure, which includes proactive credit analysis and risk management procedures, technology, operations, transaction processing, accounting, legal and compliance, and internal audit functions.

*Disciplined credit culture and credit perspective.* Resource America's disciplined credit culture serves as the backbone for all of its financial services-related businesses. We benefit from Resource America's highly specialized, proprietary credit analysis techniques, such as its proprietary credit and collateral stratifications, stress assessments and its PROTECT procedures for early detection of troubled and deteriorating securities. Through their diverse and ongoing credit experience, the Manager, Resource America and our executive officers have the ability to bring perspectives from multiple asset sectors together in their analysis of investment opportunities.

*Significant experience in asset-liability management.* Since 2002, Resource America has sponsored 22 CDOs with an original cost of approximately \$9.2 billion in assets, including our four CDOs which originally financed approximately \$1.4 billion of our assets. In addition, the Manager's and Resource America's professionals have significant experience in using hedging instruments to manage the interest rate risk associated with the asset classes we invest in, and managed \$151.3 million in notional amount of interest rate swaps, \$61.0 million in notional amount of forward interest rate swaps and an interest rate cap agreement with a notional amount of \$15.0 million for us as of September 30, 2006.

### **Summary Risk Factors**

An investment in our common stock involves various risks. You should consider carefully the risks discussed below and under "Risk Factors" before purchasing our common stock.

We have a limited operating history and limited experience operating as a REIT. We may not be able to execute our investment strategies or achieve our investment objectives, and the value of your investment could decline substantially.

Our ability to achieve returns for our stockholders depends on our ability both to generate sufficient cash flow to pay distributions and to achieve capital appreciation, and we cannot assure you that we will do either.

We depend upon the Manager, Resource America and their key personnel because we do not have our own personnel. We may not find suitable replacements if they terminate our management agreement with them or if key personnel are no longer available to us.

There are potential conflicts of interest in our relationship with the Manager, which could result in decisions that are not in the best interests of our stockholders. Our management agreement was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as

**Table of Contents**

if it had been negotiated with an unaffiliated third party. In addition, affiliates of the Manager may sponsor or manage other investment vehicles in the future with an investment focus similar to ours, which could result in us competing for access to the benefits that our relationship with the Manager provides to us.

The Manager's base management fee is tied to the amount of our equity and not to the performance of our investment portfolio, which could reduce its incentive to seek profitable opportunities for our portfolio.

The Manager's incentive compensation is based on our financial performance, which may lead it to place emphasis on the short-term maximization of net income. This could result in increased risk to the value of our investment portfolio.

We may not terminate our management agreement without cause until after March 31, 2008. Upon termination without cause after this initial term, or upon a failure to renew the management agreement, we must pay the Manager a substantial termination fee. These and other provisions in our management agreement make termination without cause or non-renewal difficult and costly.

We invest in ABS-RMBS backed by sub-prime residential mortgage loans which are subject to higher delinquency, foreclosure and loss rates than mid-prime or prime residential mortgage loans, which could result in losses to us.

We may change our investment strategy without stockholder consent, which could result in investments that are different, and possibly more risky, than those described in this prospectus.

Failure to procure adequate capital and funding may decrease our profitability and our ability to pay distributions, reducing the market price of our common stock.

Subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we intend to invest in mezzanine obligations, qualifying B notes, subordinated tranches of CMBS, other ABS, trust preferred securities and private equity investments, which may be subject to a greater risk of loss than senior obligations or whose value may be sensitive to fluctuations in interest rates.

We leverage our investments and are not limited in the amount of leverage we may use. As of September 30, 2006, our outstanding indebtedness, including our agency ABS-RMBS portfolio, was \$2.1 billion and our leverage ratio was 9.2 times. Our use of leverage may have the effect of increasing losses when economic conditions are unfavorable, and may reduce cash available for distribution to our stockholders.

The yields on our investments may be sensitive to changes in prevailing interest rates and changes in prepayment rates. Moreover, we may not be able to execute our match-funding strategy successfully. As a consequence, an increase in our borrowing costs relative to the interest we receive may result in reduced earnings and reduced cash available for distribution to our stockholders.

Fluctuations in interest rates may reduce the market value of our investments and may result in poorer overall investment performance than if we had not engaged in any hedging transactions.

Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs typically may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.

Our hedging transactions may not insulate us from interest rate risk.

While we use hedging to mitigate some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates and prepayment rates. There are practical limitations to our ability to insulate our portfolio from all of the negative consequences associated with changes in short-term interest rates while still seeking to provide attractive returns on our portfolio.

## **Table of Contents**

The assets in which we invest are subject to the credit risk of the underlying collateral. In the event of default, the amount we may be able to realize from the underlying collateral or additional credit support may be insufficient for us to fully recover our investment.

Credit Suisse Securities (USA) LLC, one of our underwriters, directly and indirectly, has entered into repurchase agreements with us under which \$619.4 million was outstanding at September 30, 2006. Credit Suisse International, an affiliate of Credit Suisse Securities (USA) LLC, has entered into four interest rate swaps with us between July 27, 2006 and September 29, 2006 in an aggregate amount of \$100.7 million. We intend to use the net proceeds of this offering to repay a portion of our indebtedness under our repurchase agreements with Credit Suisse Securities (USA) LLC. These circumstances create a potential conflict of interest because certain underwriters have interests in the successful completion of this offering beyond the underwriting discounts and commissions they will receive.

We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future. If we make distributions from uninvested offering proceeds, or borrow to make distributions, our future earnings and cash available for distribution may be reduced from what they otherwise would have been.

Our charter and bylaws, and the Internal Revenue Code provisions regarding REIT qualification, contain provisions that may inhibit potential acquisition bids that you and other stockholders may consider favorable.

If we fail to qualify as a REIT and statutory relief provisions are not available, we will be subject to income tax at regular corporate rates, which could reduce the amount of cash available for distribution to our stockholders and reduce the value of our common stock.

The REIT qualification rules impose limitations on the types of investments and activities which we may undertake, including limitations on our use of hedging transactions and derivatives, and these limitations may, in some cases, preclude us from pursuing the most economically beneficial investment alternatives.

Dividends paid by REITs generally do not qualify for the reduced tax rates for individuals applicable to qualified dividend income currently in effect for taxable years beginning before December 31, 2008.

If our CDO issuers that are taxable REIT subsidiaries are subject to federal income tax at the entity level, it would greatly reduce the amounts those entities would have available to distribute to us and to pay their creditors.

Loss of our exclusion from regulation under the Investment Company Act would require significant changes in our operations and could reduce the market price of our common stock and our ability to make distributions.

## **Business Strategy**

Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives. The core components and values of our business strategy are:

*Disciplined credit underwriting and active risk management.* The core of our investment process is credit analysis and active risk management. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes, and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stresses. Resource America actively monitors our investments for early detection of troubled and deteriorating securities and attempts to mitigate the severity of any losses on defaults of our assets.



---

## **Table of Contents**

*Investment in higher-yielding assets.* Our portfolio is and will be substantially comprised of assets such as mezzanine loans, B notes, ABS-RMBS and CMBS rated below AAA, and bank loans, which generally have higher yields than more senior or more highly-rated obligations. In line with this strategy, we recently sold our portfolio of agency ABS-RMBS and redeployed the net proceeds into higher yielding assets. Depending upon relative yields we may reinvest in agency ABS-RMBS in the future.

*Diversification of investments.* We invest in a diversified portfolio of real estate-related assets, and commercial finance assets, which we believe will allow us to continually allocate our capital to the most attractive sectors, enhancing the returns we will be able to achieve while reducing the overall risk of our portfolio through the non-correlated nature of these various asset classes.

*Use of leverage.* We use leverage to increase the potential returns to our stockholders, and seek to achieve leverage consistent with our analysis of the risk profile of the investments we finance and the borrowing sources available to us. Leverage can enhance returns but also magnifies losses.

*Active management of interest rate risk and liquidity risk.* We finance a substantial portion of our portfolio investments on a long-term basis through borrowing strategies, such as CDOs, that seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. We also use derivative instruments such as interest rate swaps and interest rate caps to manage the interest rate risk associated with the asset classes in which we invest.

### **The Manager**

We are externally managed and advised by the Manager, an indirect wholly-owned subsidiary of Resource America (NASDAQ: REXI), with whom it shares personnel. We do not have any ownership interest in the Manager. The Manager was formed in January 2005. It does not currently provide management or advisory services to other entities or clients, although our management agreement does not restrict it from doing so, except that it may not advise any new REIT that invests primarily in MBS in the United States. Resource America is a proprietary asset management company in the structured finance, real estate, and equipment finance sectors, with approximately \$12.1 billion of assets under management in these sectors at September 30, 2006, of which approximately \$8.3 billion were CDO assets on a cost basis. We do not control the assets or personnel of Resource America. Under our management agreement with the Manager and Resource America, the Manager is responsible for providing us with all management and support personnel and services necessary for our day-to-day operations. Neither we nor the Manager expect to have any employees of our own, nor does either of us expect to have any independent officers, although our chief financial officer is exclusively dedicated to our operations. We will, therefore be entirely dependent upon the Manager and Resource America for personnel and administrative infrastructure. To provide its services, the Manager draws upon the expertise and experience of Resource America which, as of September 30, 2006, had 219 employees involved in asset management, including 71 asset management professionals and 148 asset management support personnel. Resource America conducts its activities through the following subsidiaries:

Resource Real Estate, Inc. originates, finances and manages investments in real estate and real estate loans. As of September 30, 2006, Resource Real Estate had a team of 22 asset management professionals and nine asset management support personnel, including eight investment professionals who are presently exclusively dedicated to our operations, managing approximately \$883.7 million of commercial and multi-family real estate assets, of which \$439.7 million were managed on our behalf.

Ischus Capital Management, LLC invests in, finances, structures and manages ABS-RMBS, CMBS and other ABS. As of September 30, 2006, Ischus had a team of eight asset management professionals and three asset management support personnel managing over \$4.4 billion of MBS and other ABS on a cost basis, of which approximately \$1.2 billion was managed on our behalf, including \$395.7 million of

## **Table of Contents**

assets on a cost basis that were financed through Ischus CDO II, which closed July 27, 2005 and in which we own 100% of the equity. The Ischus CDO II equity interests are subordinate in right of payment to all other securities issued by it.

Apidos Capital Management, LLC invests in, finances and manages bank loans. As of September 30, 2006, Apidos had a team of 11 asset management professionals and three asset management support employees who managed approximately \$2.0 billion of bank loans on a cost basis, of which \$614.9 million were managed on our behalf, all of which were financed through Apidos CDO I, which closed August 4, 2005, and Apidos CDO III, which closed May 9, 2006. The Apidos CDO I and Apidos CDO III equity interests are subordinate in right of payment to all other securities issued by the CDO.

Trapeza Capital Management, LLC, a joint venture between Resource America and an unaffiliated third party, originates, structures, finances and manages trust preferred securities of banks and other financial institutions. As of September 30, 2006, Trapeza managed or co-managed over \$4.2 billion of trust preferred securities on a cost basis, of which \$3.5 billion were held by ten CDOs. Resource America had four asset management professionals and three asset management support personnel dedicated to Trapeza's operations as of September 30, 2006.

LEAF Financial Corporation originates, manages and services small- and middle-ticket equipment and note receivable assets. LEAF Financial had 24 asset management professionals and 93 asset management support personnel at September 30, 2006 managing approximately \$612.7 million in book value of equipment leasing and note receivable assets, of which \$91.9 million was managed on our behalf.

The Manager's principal office is located at 712 Fifth Avenue, 10th Floor, New York, New York 10019.

### **Conflicts of Interest in Our Relationship with the Manager and Resource America**

We are entirely dependent upon the Manager for our day-to-day management and do not have any independent officers. Our chairman, two of our other directors, our executive officers and the members of our investment committee also serve as officers and/or directors of the Manager or Resource America. As a result, conflicts of interest may arise between the Manager and Resource America, on the one hand, and us, on the other. These conflicts include the following:

Our management agreement was negotiated between related parties and its terms, including fees payable and the termination provisions, may not be as favorable to us as if it had been negotiated at arm's length with an unaffiliated third party.

The Manager and Resource America are permitted to invest in, and to manage entities that invest in, asset classes that are the same as or similar to our targeted asset classes, except that they may not raise capital for, sponsor or advise any new publicly-traded REIT that invests primarily in MBS in the United States. In addition, our officers, other than our chief financial officer, and the employees of Resource America who provide services to us, are not required to work full time on our affairs and anticipate devoting significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.

Our management agreement does not prohibit us from entering into any investment opportunity in which the Manager or Resource America has an interest. We currently own 100% of the equity interests in four CDOs structured for us by the Manager and we anticipate that we will invest in the equity portions of future CDOs structured for us by the Manager. We may also invest in real estate loans and equipment leases and notes originated and managed by the Manager and Resource America. A conflict of interest may arise between us and the Manager and Resource America with respect to the terms upon which we would make such an investment. In the event that any such investment opportunity is made available to us, the transaction will require the approval of a majority of our independent directors.





## **Table of Contents**

We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers and employees, as well as employees of Resource America who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us.

The compensation we pay to the Manager consists of both a base management fee that is not tied to our performance and an incentive management fee that is based entirely on our performance. The risk of the base management fee component is that it may not provide sufficient incentive to the Manager to seek to achieve attractive returns for us. The risk of the incentive fee component is that it may cause the Manager to place undue emphasis on the maximization of short-term net income at the expense of other criteria, such as preservation of capital, in order to achieve a higher incentive fee. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it. Any such shares received would have the benefit of registration rights.

Termination of the management agreement without cause is difficult and costly.

The Manager does not assume any responsibility beyond the duties specified in the management agreement and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. The Manager, Resource America, their directors, officers, managers, employees and affiliates will not be liable to us, our directors or our stockholders for, and we have agreed to indemnify them for all claims and damages arising from, acts or omissions performed in good faith in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. As a result, we could experience poor performance or losses for which the Manager would not be liable. The Manager, Resource America and their affiliates have agreed to indemnify us, our directors and officers with respect to all claims and damages arising from acts of the Manager, Resource America or their affiliates constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement or any claims by employees of the Manager, Resource America or their affiliates relating to the terms and conditions of their employment. The Manager and Resource America carry directors' and officers' insurance.

### **Resolution of Potential Conflicts of Interest in Allocation of Investment Opportunities**

The Manager and Resource America must offer us the right to consider all investments they identify that are within the parameters of our investment strategies and policies. For all potential investments other than in equipment leases and notes, if the Manager and Resource America identify an investment that is appropriate both for us and for one or more other investment programs managed by them, but the amount available is less than the amount sought by all of their investment programs, they will allocate the investment among us and such other investment programs in proportion to the relative amounts of the investment sought by each. If the portion of the investment allocable to a particular investment program would be too small for it to be appropriate for that investment program, either because of economic or market inefficiency, regulatory constraints, such as REIT qualification or exclusion from regulation under the Investment Company Act, or otherwise, that portion will be reallocated among the other investment programs. Investment programs that do not receive an allocation will

## **Table of Contents**

have preference in future investments where investment programs are seeking more of the investment than is available so that, on an overall basis, each investment program is treated equitably.

To equitably allocate investments that the Manager or Resource America has acquired at varying prices, they will allocate the investment so that each investment program will pay approximately the same average price.

With respect to equipment leases and notes, if an investment is appropriate for more than one investment program, including us, the Manager and Resource America will allocate the investment based on the following factors:

which investment program has been seeking investments for the longest period of time;

whether the investment program has the cash required for the investment;

whether the amount of debt to be incurred with respect to the investment is acceptable for the investment program;

the effect the investment will have on the investment program's cash flow;

whether the investment would further diversify, or unduly concentrate, the investment program's investments in a particular lessee, class or type of equipment, location or industry; and

whether the term of the investment is within the term of the investment program.

The Manager and Resource America may make exceptions to these general policies when other circumstances make application of the policies inequitable or uneconomic.

The Manager has also instituted policies designed to mitigate potential conflicts of interest between it and us, including:

We will not be permitted to invest in any investment fund or CDO structured, co-structured or managed by the Manager or Resource America other than those structured, co-structured or managed on our behalf. The Manager and Resource America will not receive duplicate management fees from any such investment fund or CDO to the extent we invest in it.

We will not be permitted to purchase investments from, or sell investments to, the Manager or Resource America, except that, with certain exceptions, we may purchase investments originated by those entities within 60 days before our investment.

Any transaction between entities managed by the Manager or Resource America and us must be approved by a majority of our independent directors.

## **Our Financing Strategy**

We use leverage to finance our portfolio with the objective of increasing potential returns to our stockholders. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage. We intend to use match funding to mitigate interest rate risk and liquidity risk. Match funding is the financing of our investments on a basis where the maturity and repricing dates of the investments approximates the maturity and repricing dates of the borrowings used to finance the investments. We intend to accumulate investments in warehouse and repurchase facilities and, upon our acquisition of the assets in those facilities, match fund them on a long-term basis with CDOs. When these CDOs close, the accumulated assets are transferred to them and we purchase 100% of their

outstanding equity. These equity interests are subordinated in right of payment to all other securities issued by the CDOs.

## **Table of Contents**

While we may use other forms of term financing, such as long-term match funded financing provided through bank financing and asset-backed financing programs, we do not expect that they will be a significant part of our financing structure. In addition, we have used, and may continue to use, other sources of long-term debt and hybrid debt/equity capital, including trust preferred securities. For any period during which our investment portfolio and related borrowings are not match funded, we may be exposed to the risk that our investment portfolio will reprice more slowly than the borrowings that we use to finance a significant portion of our investment portfolio. Increases in interest rates under these circumstances may significantly reduce the net interest income that we earn on our investment portfolio. We financed our agency ABS-RMBS through repurchase agreements and used derivatives such as interest rate swaps and interest rate caps as a means of mitigating our interest rate risk on forecasted interest expense associated with those same repurchase agreements. We also intend to use repurchase agreements as short-term financing for our commercial real estate loan portfolio before securing long-term-financing through a CDO.

### **Management Agreement**

Our management agreement with the Manager and Resource America provides for the day-to-day management of our operations and requires the Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. The Manager's role as manager is under the supervision and direction of our board of directors.

The initial term of the management agreement expires on March 31, 2008 and will be automatically renewed for a one-year term on that date and on each anniversary date after that, unless terminated. Our board of directors review the Manager's performance annually. After the initial term, we may terminate the management agreement annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a termination by accepting a mutually acceptable reduction of management fees. We must provide 180 days' prior notice of any such termination and pay the Manager a termination fee. We may also terminate the management agreement for cause with 30 days' prior written notice from our board of directors without payment of a termination fee. The management agreement defines cause as:

the Manager's continued material breach of any provision of the management agreement after 30 days' prior written notice thereof;

the Manager's fraud, misappropriation of funds or embezzlement against us;

the Manager's gross negligence in the performance of its duties;

the bankruptcy or insolvency of the Manager, or the filing of a voluntary bankruptcy petition by the Manager;

the dissolution of the Manager; and

a change of control of the Manager if a majority of our independent directors determines, at any point during the 18 months following the change of control, that the change of control was detrimental to the ability of the Manager to perform its duties in substantially the same manner conducted before the change of control.

Cause does not include unsatisfactory performance that is materially detrimental to our business.

**Table of Contents**

Under the management agreement, the Manager is entitled to receive a base management fee, incentive compensation, reimbursement of specified expenses and a termination fee. The following table summarizes these fees:

<b>Fee</b>	<b>Summary description</b>
<b><i>Base management fee</i></b>	<p>Payable monthly in arrears in an amount equal to 1/12 of our equity, as defined in the management agreement, times 1.5%.</p>
<b><i>Incentive fee</i></b>	<p>Payable quarterly in an amount equal to the product of:</p> <p style="padding-left: 40px;">25% of the dollar amount by which</p> <p style="padding-left: 40px;">our net income, determined in accordance with generally accepted accounting principles, or GAAP, before non-cash equity compensation expense and incentive compensation but after the base management fee, for the quarter per common share, based on the weighted average number of common shares outstanding for the quarter,</p> <p style="padding-left: 40px;">exceeds an amount equal to</p> <p style="padding-left: 40px;">the weighted average of \$15.00, the price per share of the common shares in our March 2005 private offering and our February 2006 initial public offering, and the prices per common share in any subsequent offerings by us, in each case at the time of issuance, multiplied by</p> <p style="padding-left: 40px;">2.00% or</p> <p style="padding-left: 40px;">0.50% plus one-fourth of the average 10-year Treasury Rate for such quarter;</p> <p style="padding-left: 40px;">multiplied by the weighted average number of common shares outstanding during the quarter.</p> <p>The calculation of incentive compensation will be adjusted to exclude one-time events pursuant to changes in GAAP as well as non-cash charges after discussion between the Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.</p> <p>The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our</p>

## Edgar Filing: Resource Capital Corp. - Form S-11/A

common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it, but the Manager has agreed not to make any allocations before the first anniversary of the date of grant.

### *Expense reimbursement*

We are responsible for all of our operating expenses except those that the Manager has specifically agreed to assume. The Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of employees of the Manager and Resource America and other related expenses, except that because employees of Resource America will perform some legal, accounting, due diligence and other services that outside professionals or outside consultants otherwise would perform, we reimburse the Manager and Resource America for the documented cost of performing such tasks. The reimbursement amount may be no greater than the amount which we would be required to pay outside professionals or consultants on an arm's-length basis.

**Table of Contents**

<b>Fee</b>	<b>Summary description</b>
<i>Termination fee</i>	Payable upon termination without cause or non-renewal of the management agreement in an amount equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

From March 8, 2005, the date we commenced operations, through December 31, 2005, the Manager earned base management fees of approximately \$2.7 million, incentive compensation fees of \$344,000, and received expense reimbursements of \$797,000. For the nine months ended September 30, 2006, the Manager earned base management fees of approximately \$2.7 million, incentive compensation fees of \$432,000, and received expense reimbursements of \$821,000.

**Distribution Policy**

To maintain our qualification as a REIT under the Internal Revenue Code, we intend to make regular quarterly distributions to our stockholders of at least 90% of our REIT taxable income, which is determined as of the close of our taxable year. Further, to avoid any REIT level corporate income tax and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net taxable income. On September 19, 2006, our board of directors declared a quarterly distribution of \$6.6 million, or \$0.37 per share of our common stock, payable on October 13, 2006 to stockholders of record on September 29, 2006. Our GAAP net loss for the quarter ended September 30, 2006 was \$2.4 million and our estimated REIT taxable income was \$9.2 million. On December 8, 2006, our board of directors declared a regular quarterly distribution of \$6.8 million, or \$0.38 per share of our common stock, and a special distribution of \$891,000, or \$0.05 per share of our common stock. These distributions will be payable on January 4, 2007 to stockholders of record on December 15, 2006. The special distribution relates to hedging gains realized during 2006 and is being made so that we distribute at least 90% of our ordinary REIT taxable income. Purchasers in this offering will not participate in either the quarterly distribution or the special distribution.

As a REIT, we must distribute annually to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. REIT taxable income does not necessarily equal net income as calculated in accordance with GAAP. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. We may generate less cash flow than REIT taxable income in a particular year. In that event, we may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or times that we regard as unfavorable in order to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

Up to 20% of the value of a REIT's assets may consist of investments in the securities of one or more taxable REIT subsidiaries, which we refer to as a TRS. A domestic TRS may retain its net income, and its earnings are subject to the 90% distribution requirement for REIT qualification only to the extent that the TRS actually distributes its earnings to the REIT. However, a foreign TRS, such as Apidos CDO I and Apidos CDO III, generally is deemed to distribute its earnings to the REIT on an annual basis for federal income tax purposes, regardless of whether it actually distributes its earnings. The net income of a domestic TRS, such as Resource TRS, is subject to federal income tax at regular corporate rates, whether such income is retained or distributed to the REIT. We have one domestic TRS, Resource TRS, Inc., which had no operations or assets at September 30, 2006.



---

## **Table of Contents**

We anticipate that our distributions generally will be taxable as ordinary income to our stockholders. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits for

federal income tax purposes, such distributions would generally be considered a return of capital for federal income tax purposes. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain. Income as computed for purposes of these tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

### **Exclusion from Regulation under the Investment Company Act**

We intend to operate our business so as to be excluded from regulation under the Investment Company Act. Because we conduct our business through wholly-owned subsidiaries, we must ensure not only that we qualify for an exclusion from regulation under the Investment Company Act, but also that each of our subsidiaries so qualifies.

We believe that RCC Real Estate, Inc., the subsidiary that as of September 30, 2006 held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, which we refer to as qualifying real estate assets. Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued and does not intend to issue redeemable securities.

We consider whole pool certificates to be qualifying real estate assets. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a qualifying real estate asset for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test.

We treat our investments in whole loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related

---

## **Table of Contents**

assets or miscellaneous assets, as appropriate. We do not expect that investments in non-whole pool CMBS, CDOs, other ABS, bank loans, equipment leases and notes, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage

loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

To the extent RCC Real Estate holds its commercial real estate loan assets through wholly-owned CDO subsidiaries, RCC Real Estate also intends to conduct its operations so that it will not come within the definition of an investment company set forth in Section 3(a)(1)(C) of the Investment Company Act because less than 40% of the value of its total assets on an unconsolidated basis will consist of investment securities, which we refer to as the 40% test. Investment securities exclude U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Certain of the wholly-owned CDO subsidiaries of RCC Real Estate intend to rely on Section 3(c)(5)(C) for their Investment Company Act exemption, with the result that RCC Real Estate's interest in the CDO subsidiaries would not constitute investment securities for the purpose of the 40% test.

We do not expect that our other subsidiaries, RCC Commercial, Inc. and Resource TRS, will qualify for the Section 3(c)(5)(C) exclusion. However, we do expect them to qualify for another exclusion under either Section 3(c)(1) or 3(c)(7). As required by these exclusions, we will not allow either entity to make, or propose to make, a public offering of its securities, and we will require that each owner of securities issued by those entities be a qualified purchaser so that those entities are not investment companies subject to regulation under the Investment Company Act. If we form other subsidiaries, we must ensure that they qualify for an exemption or exclusion from regulation under the Investment Company Act.

Moreover, we must ensure that Resource Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We will do so by monitoring the value of our interests in our subsidiaries. At all times, we must ensure that Resource Capital Corp. meets the 40% test. Our interest in RCC Real Estate does not constitute an investment security for purposes of the 40% test, but our interest in RCC Commercial does, and our interest in Resource TRS may in the future, constitute investment securities. Accordingly, we must monitor the value of our interest in these two subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets. We will monitor the value of our interest in Resource TRS for tax purposes as well; the applicable tax rules require us to ensure that the total value of the stock and other securities of Resource TRS and any other TRS held directly or indirectly by us does not exceed 20% of the value of our total assets. These requirements may limit our flexibility in acquiring assets in the future.

We have not received, nor have we sought, a no-action letter from the SEC regarding how our investment strategy fits within the exclusions from regulation under the Investment Company Act that we and our subsidiaries are using. To the extent that the SEC provides more specific or different guidance regarding the treatment of assets as qualifying real estate assets or real estate-related assets, we may have to adjust our investment strategy accordingly. Any additional guidance from the SEC could provide additional flexibility to us or it could further inhibit our ability to pursue the investment strategy we have chosen.

### **Qualification as a REIT**

We elected to be taxed as a REIT commencing with our taxable year ended December 31, 2005. To qualify as a REIT, we must meet various tax law requirements, including, among others, requirements relating to the nature of our assets, the sources of our gross income, the timing and amount of distributions that we make and the composition of our stockholders. As a REIT, we generally are not subject to federal income tax on our net taxable income that we distribute to our stockholders on a current basis. If we fail to qualify as a REIT in any taxable year and are not eligible for specified relief provisions, we will be subject to federal income tax at regular

## **Table of Contents**

corporate rates, and we may be precluded from qualifying as a REIT for the four taxable years following the year during which we lost our qualification. Further, even to the extent that we qualify as a REIT, we will be subject to tax at normal corporate rates on net income or capital gains not distributed to our stockholders, and we may be subject to other taxes, including payroll taxes, and state and local income, franchise, property, sales and other taxes. Moreover, our domestic TRSs, including Resource TRS, are subject to federal income taxation and to various other taxes. Any dividends received from us, with limited exceptions, will not be eligible for taxation at the preferred rates applicable to qualified dividend income currently in effect for taxable years beginning before December 31, 2008 that apply to dividends received by individuals, trusts and estates from taxable corporations.

### **Our Formation and Structure**

We were organized on January 31, 2005 as a Maryland corporation. We completed a private offering of common stock in March 2005 and our initial public offering of common stock in February 2006. Resource America, the corporate parent of the Manager, and entities affiliated with it purchased an aggregate of 1,900,000 shares of our common stock in the two offerings. 1,800,000 of the shares purchased by Resource America are held by Resource Capital Investor, Inc., a wholly owned subsidiary of Resource America. The remaining 100,000 shares purchased by Resource America are held by the Manager. We granted to the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 per share, of which 344,079 shares of restricted stock and 649,500 options to purchase shares of our common stock were allocated to persons who are directors, officers and employees of the Manager or of Resource America providing services through the Manager.

On January 13, 2006, we paid a special dividend to our stockholders of record on January 4, 2006, including holders of restricted stock, consisting of warrants to purchase our common stock. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$15.00 per share. Stockholders received one warrant for each ten shares of common stock held. If an existing stockholder owned shares in other than a ten-share increment, the stockholder received an additional warrant. The warrants will expire on January 13, 2009 and will not be exercisable until January 13, 2007. An aggregate of 1,568,244 shares will be issuable upon exercise of the warrants.

Pursuant to the management agreement by and among us, the Manager and Resource America, we paid to the Manager 14,076 common shares as of September 30, 2006. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2005 and nine months ended September 30, 2006. As of September 30, 2006, Resource America, the Manager and their affiliates, including our officers and directors, collectively owned 2,702,200 shares of our common stock, representing 13.5% of our outstanding shares of common stock, and had warrants and options to purchase an additional 814,371 shares of our common stock representing an additional 4.1% of our outstanding shares of common stock, in each case assuming all warrants and options are exercised.

Our investment activities are managed by the Manager and, through it, by Resource America, which we consider to be our promoters, and are supervised by our investment committee and board of directors. Edward E. Cohen, the Chairman of Resource America and the Manager, and Jonathan Z. Cohen, the Chief Executive Officer and President of Resource America and the Manager, hold the same positions with us.

### **Our Corporate Information**

Our principal office is located at 712 Fifth Avenue, 10<sup>th</sup> Floor, New York, New York 10019. Our website is located at [www.resourcecapitalcorp.com](http://www.resourcecapitalcorp.com). The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the SEC.

**Table of Contents**

The following illustrates the structure and ownership of our company, including our principal subsidiaries, after this offering, on a fully-diluted basis including the shares of common stock for which the warrants referred to above are exercisable, and the management relationship between Resource America, the Manager and us:

**Table of Contents**

- (1) Includes options to purchase 2,166 shares of our common stock, 921 shares of restricted stock granted to the manager at the completion of our March 2005 private offering and unallocated to its directors, officers and employees or directors, officers and employees of Resource America and 14,076 shares of common stock paid to the Manager as part of its incentive compensation.
- (2) We formed RCC Real Estate to hold our real estate-related assets and RCC Commercial to hold our commercial finance and other assets. We formed Resource TRS to hold assets, such as equipment leases and notes, non-qualifying hedges and equity interests in CDOs, to the extent necessary to assure our compliance with the gross income and asset tests applicable to REITs.
- (3) The equity interests we own are subordinate in right of payment to all other securities issued by the CDO. Apidos CDO I and Apidos CDO III are TRSs. Ischus CDO II and Resource Real Estate Funding CDO 2006-1 are qualified REIT subsidiaries.
- (4) Resource Real Estate Funding CDO 2006-1 Investor, Ltd. owns 100% of the preference shares and common equity of Resource Real Estate Funding CDO 2006-1.
- (5) Includes options to purchase 649,500 shares of our common stock and 344,079 shares of restricted stock transferred by the Manager.

**Table of Contents**

**The Offering**

Common stock offered by us	6,000,000 shares
Common stock to be outstanding after this offering	23,821,434 shares <sup>(1)</sup>
Use of proceeds	We intend to use the net proceeds of this offering to repay outstanding indebtedness under repurchase agreements.
New York Stock Exchange Symbol	RSO
Ownership and transfer restrictions	In order to assist in complying with requirements that limit the concentration of ownership of a REIT imposed by the Internal Revenue Code, our charter generally prohibits any stockholder from beneficially or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of the outstanding shares of our capital stock. Our board may, in its sole discretion, waive the 9.8% ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. We have granted waivers to Omega Advisors, Inc., in its capacity as the manager of funds and investment accounts, and to Resource America. Omega's and Resource America's ownership limit has been set at 15% of our outstanding capital stock in the aggregate. Our board may reduce each of these ownership limits in its discretion; however, any such reduction will not be effective as to shares then owned by Omega's funds and accounts or by Resource America in excess of the reduced limit.

Our charter also prohibits any person from beneficially or constructively owning capital stock such that we would be deemed to be closely held under the Internal Revenue Code, would have our capital stock being beneficially owned by fewer than 100 persons, or would otherwise cause us to fail to qualify as a REIT.

(1) Based on number of shares of our common stock outstanding on December 6, 2006. Includes 345,000 shares of restricted stock granted to Resource Capital Manager upon completion of our March 2005 private offering. Does not include options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 that we granted to Resource Capital Manager at the same time. Resource Capital Manager has the right in its discretion to allocate these shares and options to its officers, employees and other individuals who provide services to it and has so allocated 344,079 shares of restricted stock and 649,500 options to purchase our common stock. Also includes (i) an aggregate of 8,224 shares of common stock granted to our independent directors under our stock incentive plan and (ii) 14,076 shares of common stock granted to Resource Capital Manager as incentive compensation under our management agreement. Also does not include 328,443 shares of our common stock available for future grant under our stock incentive plan. See Management 2005 Stock Incentive Plan.

**Table of Contents****Summary Consolidated Financial Information**

The following table presents summary historical consolidated financial information as of and for the periods indicated. We derived the information as of December 31, 2005 and for the period March 8, 2005 (date operations commenced) to December 31, 2005 from our consolidated financial statements, which have been audited by Grant Thornton LLP, an independent registered public accounting firm, whose report is included elsewhere in this prospectus. We derived the information for all other periods from our unaudited financial statements included elsewhere in this prospectus. Since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	As of and for the nine months ended September 30, 2006 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to September 30, 2005 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005	As of and for the three months ended September 30, 2006 (unaudited)	As of and for the three months ended September 30, 2005 (unaudited)
<b>Consolidated Income Statement Data:</b>					
Revenues:					
Net interest income:					
Interest income	\$ 103,477	\$ 34,690	\$ 61,387	\$ 39,148	\$ 21,596
Interest expense	78,576	23,736	43,062	30,855	15,595
Net interest income	24,901	10,954	18,325	8,293	6,001
Other revenue:					
Net realized (loss) gain on investments	(8,853)	178	311	(8,314)	192
Other income	391			384	
Total other (loss) revenue	(8,462)	178	311	(7,930)	192
Expenses:					
Management fee expense-related party	3,147	1,839	3,012	917	822
Equity compensation expense-related party	1,620	1,873	2,709	798	836
Professional services	1,266	344	516	480	222
Insurance	372	273	395	126	122
General and administrative	1,220	795	1,096	443	415
Total expenses	7,625	5,124	7,728	2,764	2,417
Net income (loss)	\$ 8,814	\$ 6,008	\$ 10,908	\$ (2,401)	\$ 3,776
Net income (loss) per share basic	\$ 0.51	\$ 0.39	\$ 0.71	\$ (0.14)	\$ 0.25
Net income (loss) per share diluted	\$ 0.51	\$ 0.39	\$ 0.71	\$ (0.14)	\$ 0.24
Weighted average number of shares outstanding basic	17,261,091	15,333,334	15,333,334	17,585,171	15,333,334
Weighted average number of shares outstanding diluted	17,388,566	15,458,133	15,405,714	17,585,171	15,458,133

**Table of Contents**

	As of and for the nine months ended September 30, 2006 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to September 30, 2005 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005	As of and for the three months ended September 30, 2006 (unaudited)	As of and for the three months ended September 30, 2005 (unaudited)
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 13,505	\$ 23,444	\$ 17,729	\$ 13,505	\$ 23,444
Restricted cash	29,054	79,098	23,592	29,054	79,098
Receivables on investment securities sold	753,195			753,195	
Available-for-sale securities, pledged as collateral, at fair value	395,844	1,413,602	1,362,392	395,844	1,413,602
Available-for-sale securities, at fair value		35,503	28,285		35,503
Loans	1,054,602	402,564	569,873	1,054,602	402,564
Total assets	2,369,379	2,002,546	2,045,547	2,369,379	2,002,546
Repurchase agreements (including accrued interest of \$1,012, \$1,128, \$2,104, \$1,012 and \$1,128)	770,167	1,059,736	1,068,277	770,167	1,059,736
CDOs (net of debt issuance costs of \$18,730, \$10,371, \$10,093, \$18,730 and \$10,371)	1,206,751	679,129	687,407	1,206,751	679,129
Warehouse agreements		35,255	62,961		35,255
Secured term facility	87,080			87,080	
Unsecured revolving credit facility			15,000		
Unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities	51,548			51,548	
Total liabilities	2,139,392	1,788,764	1,850,214	2,139,392	1,788,764
Total stockholders' equity	229,987	213,782	195,333	229,987	213,782
<b>Other Data:</b>					
Dividends declared per common share	\$ 1.06	\$ 0.20	\$ 0.86	\$ 0.37	\$ 0.20



**Table of Contents**

**RISK FACTORS**

*Investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, together with the other information contained in this prospectus, before investing in our common stock. If any of the risks discussed in this prospectus occurs, our business, prospects, financial condition, liquidity and results of operations, and our ability to pay distributions, could be materially harmed. This could cause the value of our common stock to decline and you could lose all or a part of your investment.*

**Risks Related to Our Business**

*We have a limited operating history. We may not be able to operate our business successfully or generate sufficient revenue to make distributions to our stockholders.*

We have only a limited operating history. We commenced operations on March 8, 2005. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not be able to execute our investment strategy or achieve our investment objectives and that the value of your investment could decline substantially. Our ability to achieve returns for our stockholders depends on our ability both to generate sufficient cash flow to pay distributions and to achieve capital appreciation, and we cannot assure you that we will do either.

*We depend on the Manager and Resource America and may not find suitable replacements if the management agreement terminates.*

We have no employees. Our officers, portfolio managers, administrative personnel and support personnel are employees of Resource America. We have no separate facilities and completely rely on the Manager and, because the Manager has no direct employees, Resource America, which has significant discretion as to the implementation of our operating policies and investment strategies. If our management agreement terminates, we may be unable to find a suitable replacement for them. Moreover, we believe that our success depends to a significant extent upon the experience of the Manager's and Resource America's executive officers and senior portfolio managers, and in particular Edward E. Cohen, Jonathan Z. Cohen, Steven J. Kessler, Jeffrey D. Blomstrom, David J. Bryant, Thomas C. Elliott, Christopher D. Allen, Gretchen Bergstresser, David Bloom, Crit DeMent, Alan F. Feldman and Andrew P. Shook, whose continued service is not guaranteed. The departure of any of the executive officers or senior portfolio managers could harm our investment performance.

*The Manager and Resource America have only limited prior experience managing a REIT and we cannot assure you that their past experience will be sufficient to successfully manage our business.*

The federal income tax laws impose numerous constraints on the operations of REITs. The executive officers of the Manager and Resource America have only limited prior experience managing assets under these constraints, which may hinder the Manager's ability to achieve our investment objectives.

*We must pay the Manager the base management fee regardless of the performance of our portfolio.*

The Manager is entitled to receive a monthly base management fee equal to 1/12 of our equity, as defined in the management agreement, times 1.5%, regardless of the performance of our portfolio. The Manager's entitlement to substantial non-performance based compensation might reduce its incentive to devote its time and effort to seeking profitable opportunities for our portfolio. This in turn could hurt our ability to make distributions to our stockholders.

*The incentive fee we pay the Manager may induce it to make riskier investments.*

In addition to its base management fee, the Manager will receive incentive compensation, payable quarterly, equal to 25% of the amount by which our net income, as defined in the management agreement, exceeds the

## **Table of Contents**

weighted average prices for our common stock in all of our offerings multiplied by the greater of 2.00% or 0.50% plus one-fourth of the average 10-year treasury rate for such quarter, multiplied by the weighted average number of common shares outstanding during the quarter. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead the Manager to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yields generally have higher risk of loss than investments with lower yields.

***The Manager manages our portfolio pursuant to very broad investment guidelines and our board does not approve each investment decision, which may result in our making riskier investments.***

The Manager is authorized to follow very broad investment guidelines. While our directors periodically review our investment guidelines and our investment portfolio, they do not review all of our proposed investments. In addition, in conducting periodic reviews, the directors may rely primarily on information provided to them by the Manager. Furthermore, the Manager may use complex strategies, and transactions entered into by the Manager may be difficult or impossible to unwind by the time they are reviewed by the directors. The Manager has great latitude within the broad investment guidelines in determining the types of investments it makes for us. Poor investment decisions could impair our ability to make distributions to our stockholders.

***We may change our investment strategy without stockholder consent, which may result in riskier investments than those currently targeted.***

Subject to maintaining our qualification as a REIT and our exclusion from regulation under the Investment Company Act, we may change our investment strategy, including the percentage of assets that may be invested in each class, or in the case of securities, in a single issuer, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this prospectus. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations, all of which may reduce the market price of our common stock and impair our ability to make distributions to you. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this prospectus.

***Our management agreement was not negotiated at arm's-length and, as a result, may not be as favorable to us as if it had been negotiated with a third party.***

Our officers and two of our directors, Edward E. Cohen and Jonathan Z. Cohen, are officers or directors of the Manager, and Resource America. As a consequence, our management agreement was not the result of arm's-length negotiations and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

***Termination of the management agreement by us without cause is difficult and could be costly.***

Termination of our management agreement without cause is difficult and could be costly. We may terminate the management agreement without cause only annually following its initial term upon the affirmative vote of at least two-thirds of our independent directors or by a vote of the holders of at least a majority of our outstanding common stock, based upon unsatisfactory performance by the Manager that is materially detrimental to us or a determination that the management fee payable to the Manager is not fair. Moreover, with respect to a determination that the management fee is not fair, the Manager may prevent termination by accepting a mutually acceptable reduction of management fees. We must give not less than 180 days' prior notice of any termination. Upon any termination without cause, the Manager will be paid a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by it during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

---

**Table of Contents**

***The Manager and Resource America may engage in activities that compete with us.***

Our management agreement does not prohibit the Manager or Resource America from investing in or managing entities that invest in asset classes that are the same as or similar to our targeted asset classes, except that they may not raise funds for, sponsor or advise any new publicly-traded REIT that invests primarily in MBS in the United States. The Manager's policies regarding resolution of conflicts of interest may be varied by it if economic, market, regulatory or other conditions make their application economically inefficient or otherwise impractical. Moreover, our officers, other than our chief financial officer, and the officers, directors and employees of Resource America who provide services to us are not required to work full time on our affairs, and anticipate devoting significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.

***Our Manager's liability is limited under the management agreement, and we have agreed to indemnify our Manager against certain liabilities.***

Our Manager will not assume any responsibility under the management agreement other than to render the services called for under it, and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Resource America, the Manager, their directors, managers, officers, employees and affiliates will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders for acts performed in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. We have agreed to indemnify the parties for all damages and claims arising from acts not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement.

***We leverage our portfolio, which may reduce the return on our investments and cash available for distribution.***

We currently leverage our portfolio through securitizations, including CDOs, repurchase agreements, secured term facilities, warehouse facilities, issuance of trust preferred securities, bank credit facilities and other forms of borrowing. We are not limited in the amount of leverage we may use. As of September 30, 2006, our outstanding indebtedness was \$2.1 billion and our leverage ratio was 9.2 times. Excluding borrowings repaid upon the sale of our agency ABS-RMBS portfolio, which we agreed to sell on September 27, 2006 and settled on October 2, 2006, our outstanding indebtedness was \$1.4 billion and our leverage ratio was 6.1 times. The amount of leverage we use will vary depending on the availability of credit facilities, our ability to structure and market securitizations, the asset classes we leverage and the cash flows from the assets being financed. Our use of leverage subjects us to risks associated with debt financing, including the risks that

the cash provided by our operating activities will not be sufficient to meet required payments of principal and interest,

the cost of financing will increase relative to the income from the assets financed, reducing the income we have available to pay distributions, and

our investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing we obtain will not be as favorable as the terms of existing financing. If we are unable to secure refinancing on acceptable terms, we may be forced to dispose of some of our assets upon disadvantageous terms or to obtain financing at unfavorable terms, either of which may result in losses to us or reduce the cash flow available to meet our debt service obligations or to pay distributions.

Financing that we obtain, and particularly securitization financing such as CDOs, may require us to maintain a specified ratio of the amount of the financing to the value of the assets financed. A decrease in the value of these assets may lead to margin calls or calls for the pledge of additional assets which we will have to satisfy. We may not have sufficient funds or unpledged assets to satisfy any such calls.

## **Table of Contents**

***Growth in our business operations may strain the infrastructure of the Manager and Resource America, which could increase our costs, reduce our profitability and reduce our cash available for distribution and our stock price. Failure to grow may harm our ability to achieve our investment objectives.***

Our ability to achieve our investment objectives depends on our ability to grow, which will depend on the ability of the Manager to identify investments that meet our investment criteria and to obtain financing on acceptable terms. Our ability to grow also depends upon the ability of the Manager and Resource America to successfully hire, train, supervise and manage any personnel needed to discharge their duties to us under our management agreement. Our business operations may strain the management infrastructure of the Manager and Resource America, which could increase our costs, reduce our profitability and reduce either or both of the distributions we can pay or the price at which our common stock trades.

***We operate in a highly competitive market for investment opportunities, which may result in higher prices, lower yields and a narrower net interest spread for our investments, and may inhibit the growth or delay the diversification of our portfolio.***

A number of entities compete with us to make the types of investments that we seek to make. We will compete with other REITs, public and private investment funds, commercial and investment banks, commercial finance companies and other debt-oriented investors. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Other REITs have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives substantially similar to ours. Some of our competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments or establish more investment sourcing relationships than us. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time or be able to identify and make investments that are consistent with our investment objectives. Competition for desirable investments may result in higher prices, lower yields and a narrower net interest spread, and may delay the investment of our capital as contemplated by this prospectus. If competition has these effects, our earnings and ability to pay distributions could be reduced.

***Failure to procure adequate capital and funding may decrease our profitability and our ability to make distributions, reducing the market price of our common stock.***

We depend upon the availability of adequate funding and capital for our operations. As a REIT, we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and are therefore not able to retain significant amounts of our earnings for new investments. Moreover, although Resource TRS, our TRS, may retain earnings as new capital, we are subject to REIT qualification requirements which limit the relative value of TRS stock and securities to the other assets owned by a REIT. Consequently, we will depend upon the availability of financing and additional capital to execute our investment strategy. If sufficient financing or capital is not available to us on acceptable terms, we may not be able to achieve anticipated levels of profitability either due to the lack of funding or an increase in funding costs and our ability to make distributions and the price of our common stock may decline.

***We intend to finance some of our investments through CDOs in which we will retain the equity. CDO equity receives distributions from the CDO only if the CDO generates enough income to first pay the holders of its debt securities and its expenses.***

We seek to finance our commercial real estate-related loans, ABS-RMBS, CMBS and commercial finance assets through CDOs in which we will retain the equity interest. A CDO is a special purpose vehicle that purchases collateral that is expected to generate a stream of interest or other income. The CDO issues various classes of securities that participate in that income stream, typically one or more classes of debt instruments and a class of equity securities. The equity interests are subordinate in right of payment to all other securities issued by

## **Table of Contents**

the CDO. The equity is usually entitled to all of the income generated by the CDO after the CDO pays all of the interest due on the debt securities and other expenses. However, there will be little or no income available to the CDO equity if there are excessive defaults by the issuers of the underlying collateral. In that event, the value of our investment in the CDO's equity could decrease substantially. In addition, the equity securities of CDOs are generally illiquid, and because they represent a leveraged investment in the CDO's assets, the value of the equity securities will generally have greater fluctuations than the value of the underlying collateral.

### ***The use of CDO financings with over-collateralization requirements may reduce our cash flow.***

We expect that the terms of CDOs we may use to finance our portfolio will generally require the principal amount of the assets forming the collateral pool to exceed the principal balance of the CDOs, commonly referred to as over-collateralization. Typically, in a CDO if the delinquencies or losses exceed specified levels, which are generally established based on the analysis by the rating agencies or a financial guaranty insurer of the characteristics of the assets collateralizing the bonds, the amount of over-collateralization required increases or may be prevented from decreasing from what would otherwise be permitted if losses or delinquencies did not exceed those levels. Other tests, based on delinquency levels or other criteria, may restrict our ability to receive net income from assets collateralizing the obligations. Before structuring any CDO issuances, we will not know the actual terms of the delinquency tests, over-collateralization terms, cash flow release mechanisms or other significant terms. If our assets fail to perform as anticipated, we may be unable to comply with these terms, which would reduce or eliminate our cash flow from our CDO financings and, as a result, our net income and ability to make distributions.

### ***Declines in the market values of our investments may reduce periodic reported results, credit availability and our ability to make distributions.***

We classify a substantial portion of our assets for accounting purposes as available-for-sale. As a result, changes in the market values of those assets are directly charged or credited to stockholders' equity. A decline in these values will reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale asset is other than temporary, such decline will reduce earnings.

A decline in the market value of our assets may also adversely affect us in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we could have to sell the assets under adverse market conditions. As a result, a reduction in credit availability may reduce our earnings and, in turn, cash available to make distributions.

### ***Loss of our exclusion from regulation under the Investment Company Act would require significant changes in our operations and could reduce the market price of our common stock and our ability to make distributions.***

In order to be excluded from regulation under the Investment Company Act, we must comply with the requirements of one or more of the exclusions from the definition of investment company. Because we conduct our business through wholly-owned subsidiaries, we must ensure not only that we qualify for an exclusion from regulation under the Investment Company Act, but also that each of our subsidiaries so qualifies. If we fail to qualify for an exclusion, we could be required to restructure our activities or register as an investment company. Either alternative would require significant changes in our operations and could reduce the market price of our common stock. For example, if the market value of our investments in assets other than qualifying real estate assets or real estate-related assets were to increase beyond the levels permitted under the Investment Company Act exclusion upon which we rely or if assets in our portfolio were deemed not to be qualifying real estate assets as a result of SEC staff guidance, we might have to sell those assets or acquire additional qualifying real estate assets in order to maintain our exclusion. Any such sale or acquisition could occur under adverse market conditions. If we were required to register as an investment company, our use of leverage to fund our investment strategies would be significantly limited, which would limit our profitability and ability to make distributions, and we would become

## **Table of Contents**

subject to substantial regulation concerning management, operations, transactions with affiliated persons, portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

***Rapid changes in the values of our real-estate related investments may make it more difficult for us to maintain our qualification as a REIT or exclusion from regulation under the Investment Company Act.***

If the market value or income potential of our real estate-related investments declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate-related investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exclusion from the Investment Company Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of many of our non-real estate assets. We may have to make investment decisions that we otherwise would not make absent REIT qualification and Investment Company Act considerations.

***We are highly dependent on information systems. Systems failures could significantly disrupt our business.***

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities which could harm our operating results, cause the market price of our common stock to decline and reduce our ability to make distributions.

***If we issue senior securities, their terms may restrict our ability to make cash distributions, require us to obtain approval to sell our assets or otherwise restrict our operations in ways which could make it difficult to execute our investment strategy and achieve our investment objectives.***

If we issue senior securities, they will likely be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Holders of senior securities may be granted the right to hold a perfected security interest in certain of our assets, to accelerate payments due under the indenture, to restrict distributions, and to require approval to sell assets. These covenants could make it more difficult to execute our investment strategy and achieve our investment objectives. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock. We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities.

***Terrorist attacks and other acts of violence or war may affect the market for our common stock, the industry in which we conduct our operations and our profitability.***

Terrorist attacks may harm our results of operations and your investment. We cannot assure you that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact the property underlying our ABS securities or the securities markets in general. Losses resulting from these types of events are uninsurable.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. Adverse economic conditions could harm the value of the property underlying our ABS or the securities markets in general which could harm our operating results and revenues and may result in the volatility of the value of our securities.

## **Risks Related to Our Investments**

***Increases in interest rates and other factors could reduce the value of our investments, result in reduced earnings or losses and reduce our ability to pay distributions.***

A significant risk associated with our investment in commercial real estate-related loans, ABS-RMBS, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase

## **Table of Contents**

significantly. If long-term rates increase, the market value of our assets would decline. Even if the mortgages underlying any agency ABS-RMBS we may own in the future are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, those guarantees do not protect against declines in market value of the related ABS-RMBS caused by interest rate changes. At the same time, because of the short-term nature of the financing we expect to use to acquire our investments and to hold ABS-RMBS, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread. This could result in reduced profitability and distributions.

***We invest in ABS-RMBS backed by sub-prime residential mortgage loans which are subject to higher delinquency, foreclosure and loss rates than mid-prime or prime residential mortgage loans, which could result in losses to us.***

Sub-prime residential mortgage loans are made to borrowers who have poor or limited credit histories and, as a result, do not qualify for traditional mortgage products. Because of their credit histories, sub-prime borrowers have materially higher rates of delinquency, foreclosure and loss compared to mid-prime and prime credit quality borrowers. As a result, investments in ABS-RMBS backed by sub-prime residential mortgage loans may have higher risk of loss than investments in ABS-RMBS backed by mid-prime and prime residential mortgage loans.

***Investing in mezzanine debt and mezzanine or other subordinated tranches of CMBS, bank loans and other ABS involves greater risks of loss than senior secured debt investments.***

Subject to maintaining our qualification as a REIT, we will invest in mezzanine debt and expect to invest in mezzanine or other subordinated tranches of CMBS, bank loans and other ABS. These types of investments carry a higher degree of risk of loss than senior secured debt investments such as our ABS-RMBS investments because, in the event of default and foreclosure, holders of senior liens will be paid in full before mezzanine investors and, depending on the value of the underlying collateral at the time of foreclosure, there may not be sufficient assets to pay all or any part of amounts owed to mezzanine investors. Moreover, our mezzanine and other subordinate debt investments may have higher LTV ratios than conventional senior lien financing, resulting in less equity in the collateral and increasing the risk of loss of principal. If a borrower defaults or declares bankruptcy, we may be subject to agreements restricting or eliminating our rights as a creditor, including rights to call a default, foreclose on collateral, accelerate maturity or control decisions made in bankruptcy proceedings. In addition, the prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to economic downturns or individual issuer developments. An economic downturn, for example, could cause a decline in the price of lower credit quality securities because the ability of obligors of instruments underlying the securities to make principal and interest payments may be impaired. In such event, existing credit support relating to the securities structure may not be sufficient to protect us against loss of our principal.

***The B notes in which we invest may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.***

A B note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B note owners after payment to the senior note owners. B notes reflect similar credit risks to comparably rated CMBS. However, since each transaction is privately negotiated, B notes can vary in their structural characteristics and risks. For example, the rights of holders of B notes to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each B note investment we will make. Further, B notes typically are secured by a single property, and so reflect the increased risks associated with a single property compared to a pool of properties. B notes also are less liquid than CMBS, thus we may be unable to dispose of underperforming or non-performing investments. The higher risks associated with our subordinate position in our B note investments could subject us to increased risk of losses.

## **Table of Contents**

***Our assets likely will include trust preferred securities of financial institutions, or CDOs collateralized by these securities, which may have greater risks of loss than senior secured loans.***

Subject to maintaining our qualification as a REIT, we expect that we will invest in the trust preferred securities of financial institutions or CDOs collateralized by these securities. Investing in these securities will involve a higher degree of risk than investing in senior secured loans, including the following:

Trust preferred securities, which are issued by a special purpose trust, typically are collateralized by a junior subordinated debenture of the financial institution and that institution's guarantee, and thus are subordinate and junior in right of payment to most of the financial institution's other debt.

Trust preferred securities often will permit the financial institution to defer interest payments on its junior subordinated debenture, deferring dividend payments by the trust on the trust preferred securities, for specified periods.

If trust preferred securities are collateralized by junior subordinated debentures issued by the financial institution's holding company, dividend payments may be affected by regulatory limitations on the amount of dividends, other distributions or loans a financial institution can make to its holding company, which typically are the holding company's principal sources of funds for meeting its obligations, including its obligations under the junior subordinated debentures.

As a result, a holder of trust preferred securities may be limited in its ability both to enforce its payment rights and to recover its investment upon default. Moreover, any deferral of dividends on the trust preferred securities in which we may invest will reduce the funds available to us to make distributions which, in turn, could reduce the market price of our common stock.

***We invest in small- and middle-ticket equipment leases and notes to small- and mid-size businesses which may have greater risks of default than leases or loans to larger businesses.***

Subject to maintaining our qualification as a REIT, we invest in small- and middle-ticket equipment leases and notes. Many of the obligors are small- to mid-size businesses. As a result, we may be subject to higher risks of lease default than if our obligors were larger businesses. While we will seek to repossess and re-lease or sell the equipment subject to a defaulted lease or note, we may not be able to do so on advantageous terms. If an obligor files for protection under the bankruptcy laws, we may experience difficulties and delays in recovering the equipment. Moreover, the equipment may be returned in poor condition and we may be unable to enforce important lease provisions against an insolvent obligor, including the contract provisions that require the obligor to return the equipment in good condition. In some cases, an obligor deteriorating financial condition may make trying to recover what the obligor owes impractical. The costs of recovering equipment upon a obligor's default, enforcing the obligor's obligations under the lease, and transporting, storing, repairing and finding a new obligor or purchaser for the equipment may be high. Higher than expected lease defaults will result in a loss of anticipated revenues. These losses may impair our ability to make distributions and reduce the market price of our common stock.

***Private equity investments involve a greater risk of loss than traditional debt financing.***

Private equity investments are subordinate to debt financing and are not secured. Should the issuer default on our investment, we would only be able to proceed against the entity that issued the private equity in accordance with the terms of the security, and not any property owned by the entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our investment after any lenders to the entity are paid. As a result, we may not recover some or all of our investment, which could result in losses.

***Some of our portfolio investments will be recorded at fair value as estimated by our management and reviewed by our board of directors and, as a result, there will be uncertainty as to the value of these investments.***

Some of our portfolio investments will be in the form of securities that are not publicly traded, including the securities of Resource TRS. The fair value of securities and other investments that are not publicly traded may





## **Table of Contents**

not be readily determinable. We will value these investments quarterly at fair value as determined under policies approved by our board of directors. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our common stock would likely decrease if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

***Some of our investments may be illiquid, which may result in our realizing less than their recorded value should we need to sell such investments quickly.***

We have made investments, and expect to make additional investments, in securities that are not publicly traded. A portion of these securities may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. If we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we, the Manager or Resource America has or could be attributed with material non-public information regarding such business entity.

***We may enter into repurchase or warehouse agreements in connection with our planned investment in the equity securities of CDOs and if the investment in the CDO is not consummated, the collateral will be sold and we must bear any loss resulting from the purchase price of the collateral exceeding the sale price up to the amount of our investment or guaranty.***

In connection with our investment in CDOs that the Manager structures for us, we enter into repurchase or warehouse agreements with investment banks or other financial institutions, pursuant to which the institutions will initially finance the purchase of the collateral that will be transferred to the CDOs. The Manager will select the collateral. If the CDO transaction is not consummated, the institution would liquidate the collateral and we would have to pay any amount by which the original purchase price of the collateral exceeds its sale price up to the amount of our investment or guaranty, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the CDO transaction is consummated, if any of the collateral is sold before the consummation, we will have to bear any resulting loss on the sale up to the amount of our investment or guaranty. The amount at risk in connection with the repurchase or warehouse agreements supporting our investments in CDOs generally is the amount that we have agreed to invest in the equity securities of the CDO. However, in connection with several of our repurchase agreements, we have agreed to provide a guaranty for the maximum amount of the borrowings under those facilities.

***We may not be able to acquire eligible securities for a CDO issuance, or may not be able to issue CDO securities on attractive terms, which may require us to seek more costly financing for our investments or to liquidate assets.***

We use CDOs to provide long-term financing for a significant portion of the assets we acquire. During the period that we are acquiring assets we expect to finance through a CDO, however, we intend to use warehouse and repurchase facilities until we accumulate a sufficient quantity of assets to permit a CDO issuance. The warehouse or repurchase facility is typically with a bank or other financial institution that will be the lead manager of the CDO issuance. We direct the financing provider to purchase the securities and contribute cash and other collateral which the financing provider holds in escrow as security for our commitment to purchase equity in the CDO and to cover our share of losses should securities need to be liquidated. As a result, during the accumulation period, we are subject to the risk that we will not be able to acquire a sufficient amount of eligible assets to maximize the efficiency of a CDO issuance. In addition, conditions in the capital markets may make the issuance of CDOs less attractive to us when we do not have a sufficient pool of collateral. If we are unable to issue a CDO to finance these assets, we may have to seek other forms of potentially less attractive financing or otherwise to liquidate the assets at a price that could result in a loss of all or a portion of the cash and other collateral backing our purchase commitment or require us to make payments under any guaranties we have given.

## **Table of Contents**

### ***We may have to repurchase assets that we have sold in connection with CDOs and other securitizations.***

If any of the assets that we originate or acquire and sell or securitize does not comply with representations and warranties that we make about their characteristics, the borrowers and the underlying assets, we may have to purchase these assets from the CDO or securitization vehicle, or replace them with substitute loans or securities. In addition, in the case of loans or securities that we have sold instead of retained, we may have to indemnify purchasers for losses or expenses incurred as a result of a breach of a representation or warranty. Any significant repurchases or indemnification payments could materially reduce our liquidity, earnings and ability to make distributions.

### ***An increase in our borrowing costs relative to the interest we receive on our assets may impair our profitability, and thus our cash available for distribution to our stockholders.***

As our repurchase agreements and other short-term borrowings mature, we will be required either to enter into new borrowings or to sell certain of our investments at times when we might otherwise not choose to do so. At September 30, 2006, our repurchase agreements had a weighted average maturity of 3 days and our secured term facility had a weighted average maturity of 3.5 years. An increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would adversely affect our returns on our assets, which might reduce earnings and, in turn, cash available for distribution to our stockholders.

### ***Termination events contained in our repurchase agreements increase the possibility that we will be unable to maintain adequate capital and funding and may reduce cash available for distribution.***

The occurrence of an event of default under our repurchase agreements may cause transactions to be terminated early. Events of default include failure to complete an agreed upon repurchase transaction, failure to comply with margin and margin repayment requirements, the commencement by us of a bankruptcy, insolvency or similar proceeding or filing of a petition against us under bankruptcy, insolvency or similar laws, or admission of an inability to, or intention not to, perform our obligation under the agreement. The occurrence of an event of default or termination event would give our counterparty the option to terminate all repurchase transactions existing with us and make any amount due by us to the counterparty payable immediately. If we are required to terminate outstanding repurchase transactions and are unable to negotiate more favorable funding terms, our financing costs will increase. This may reduce the amount of capital available for investing and/or may impair our ability to make distributions. In addition, we may have to sell assets at a time when we might not otherwise choose to do so.

### ***A prolonged economic slowdown, recession or decline in real estate values could impair our investments and harm our operating results.***

Many of our investments may be susceptible to economic slowdowns or recessions or declines in real estate values, which could lead to financial losses on our investments and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and reduce or eliminate our earnings and ability to make distributions.

### ***We may be exposed to environmental liabilities with respect to properties to which we take title.***

In the course of our business, we may take title to real estate through foreclosure on collateral underlying real estate investments. If we do take title to any property, we could be subject to environmental liabilities with respect to it. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs they incur as a result of environmental contamination, or may have to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial and could reduce our income and ability to make distributions.

## **Table of Contents**

***We will lose money on our repurchase transactions if the counterparty to the transaction defaults on its obligation to resell the underlying security back to us at the end of the transaction term, or if the value of the underlying security has declined as of the end of the term or if we default on our obligations under the repurchase agreement.***

When we engage in a repurchase transaction, we generally sell securities to the transaction counterparty and receive cash from the counterparty. The counterparty must resell the securities back to us at the end of the term of the transaction, which is typically 30-90 days. Because the cash we receive from the counterparty when we initially sell the securities to the counterparty is less than the market value of those securities, typically about 60% to 85% of that value, if the counterparty defaults on its obligation to resell the securities back to us we will incur a loss on the transaction. We will also incur a loss if the value of the underlying securities has declined as of the end of the transaction term, as we will have to repurchase the securities for their initial value but would receive securities worth less than that amount. Any losses we incur on our repurchase transactions could reduce our earnings, and thus our cash available for distribution to our stockholders.

If we default on one of our obligations under a repurchase transaction, the counterparty can terminate the transaction and cease entering into any other repurchase transactions with us. In that case, we would likely need to establish a replacement repurchase facility with another repurchase dealer in order to continue to leverage our portfolio and carry out our investment strategy. There is no assurance we would be able to establish a suitable replacement facility.

***Our hedging transactions may not completely insulate us from interest rate risk and may result in poorer overall investment performance than if we had not engaged in any hedging transactions.***

Subject to maintaining our qualification as a REIT, we may pursue various hedging strategies to seek to reduce our exposure to losses from adverse changes in interest rates. Our interest rate hedging activity will vary in scope depending upon market conditions relating to, among other factors, the level and volatility of interest rates and the type of assets we hold. There are practical limitations on our ability to insulate our portfolio from all of the negative consequences associated with changes in short-term interest rates, including:

Available interest rate hedges may not correspond directly with the interest rate risk against which we seek protection.

The duration of the hedge may not match the duration of the related liability.

Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.

Losses on a hedge position may reduce the cash available to make distributions to stockholders, and may exceed the amounts invested in the hedge position.

The amount of income that a REIT may earn from hedging transactions, other than through a TRS, is limited by federal tax provisions governing REITs.

The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction.

The party owing money in the hedging transaction may default on its obligation to pay.

We have adopted written policies and procedures governing our hedging activities. Under these policies and procedures, our board of directors is responsible for approving the types of hedging instruments we may use, absolute limits on the notional amount and term of a hedging instrument and parameters for the credit-worthiness of hedge counterparties. The senior managers responsible for each of our targeted asset classes are responsible for executing transactions using the services of independent interest rate risk management consultants, documenting the transactions,

monitoring the valuation and effectiveness of the hedges, and providing reports

## **Table of Contents**

concerning our hedging activities and the valuation and effectiveness of our hedges, to the audit committee of our board of directors no less often than quarterly. Our guidelines also require us to engage one or more experienced third party advisors to provide us with assistance in the identification of interest rate risks, the analysis, selection and timing of risk protection strategies, the administration and negotiation of hedge documentation, settlement or disposition of hedges, compliance with hedge accounting requirements and measurement of hedge effectiveness and valuation.

Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of the positions or prevent losses if the values of the positions decline. Hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, we may not be able to hedge against an interest rate fluctuation that is generally anticipated by the market.

The success of our hedging transactions will depend on the Manager's ability to correctly predict movements of interest rates. Therefore, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

***Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities and involve risks of default by the hedging counterparty and illiquidity.***

Subject to maintaining our qualification as a REIT, we expect to use puts and calls on securities or indices of securities, interest rate swaps, caps and collars, including options and forward contracts, and interest rate lock agreements, principally Treasury lock agreements, to seek to hedge against mismatches between the cash flows from our assets and the interest payments on our liabilities. Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we entered into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, we may not always be able to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. A liquid secondary market may not exist for hedging instruments purchased or sold, and we may have to maintain a position until exercise or expiration, which could result in losses.

***We may enter into hedging instruments that could expose us to unexpected losses in the future.***

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into puts and calls on securities or indices of securities and interest rate swaps, caps and collars, including options and forward contracts, and interest rate lock agreements, principally Treasury lock agreements. These hedging instruments require us to fund cash payments in the future under certain circumstances, for example, upon the early termination of the instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the instrument. The amount due would be equal to the unrealized loss of the open positions with the counterparty and could also

---

**Table of Contents**

include other fees and charges. These losses will be reflected in our financial results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

*Increased levels of prepayments on our MBS might decrease our net interest income or result in a net loss.*

Pools of mortgage loans underlie the MBS that we acquire. We generally will receive payments from the payments that are made on these underlying mortgage loans. When we acquire MBS, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. When borrowers prepay their mortgage loans faster than expected, this results in corresponding prepayments on the mortgage-related securities and may reduce the expected yield. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by other factors, including conditions in the housing and financial markets, general economic conditions and the relative interest rates on adjustable-rate and fixed-rate mortgage loans. No strategy can completely insulate us from prepayment or other such risks. As a result, in periods of declining rates, owners of MBS may have more money to reinvest than anticipated and be required to invest it at the lower prevailing market rates. Conversely, in periods of rising rates, owners of MBS may have less money to invest than anticipated at the higher prevailing rates. This volatility in prepayment rates also may affect our ability to maintain targeted amounts of leverage on our MBS portfolio and may result in reduced earnings or losses for us and reduce or eliminate the cash available for distribution.

*The obligations underlying our real estate-related investments will be subject to delinquency, foreclosure and loss, which could result in losses to us.*

Our real estate-related investments will be secured by underlying mortgage loan obligations. Accordingly, we will be subject to all of the risks of the underlying obligations.

Commercial mortgage loans are secured by, and mezzanine loans depend on, the underlying, multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss, that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by or dependent upon an income-producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things:

tenant mix, success of tenant businesses and property management decisions,

property location and condition,

competition from comparable types of properties,

changes in laws that increase operating expense or limit rents that may be charged,

any need to address environmental contamination at the property,

the occurrence of any uninsured casualty at the property,

changes in national, regional or local economic conditions and/or specific industry segments,

Edgar Filing: Resource Capital Corp. - Form S-11/A

declines in regional or local real estate values,

declines in regional or local rental or occupancy rates,

increases in interest rates, real estate tax rates and other operating expenses,

transitional nature of a property being converted to an alternate use;

changes in governmental rules, regulations and fiscal policies, including environmental legislation, and

acts of God, terrorism, social unrest and civil disturbances.



---

**Table of Contents**

Residential mortgage loans are secured by single-family residential property and are subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay these loans is dependent upon the borrower's income or assets. A number of factors, including a national, regional or local economic downturn, acts of God, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans. Economic problems specific to a borrower, such as loss of a job or medical problems, may also impair a borrower's ability to repay his or her loan.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which would reduce our cash flow from operations. Foreclosure of a mortgage loan can be an expensive and lengthy process which could reduce our return on the foreclosed mortgage loan. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy as determined by the bankruptcy court, and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

For a discussion of other risks associated with mezzanine loans, see Investing in mezzanine debt or mezzanine or other subordinated tranches of CMBS, bank loans and other ABS involves greater risks of loss than senior secured debt instruments.

***Our assets will include bank loans, other ABS and private equity investments, which will carry higher risks of loss than our real estate-related portfolio.***

Subject to maintaining our qualification as a REIT, we invest in bank loans and other ABS. Our bank loan investments or our other ABS investments, which are principally backed by small business and bank loans, may not be secured by mortgages or other liens on assets or may involve higher LTV ratios than our other real estate-related investments. Our bank loan investments, and our ABS backed by loans, may involve one or more loans that have an interest-only payment schedule or a schedule that does not fully amortize principal over the term of the loan, which will make repayment of the loan depend upon the borrower's liquidity or ability to refinance the loan at maturity. Numerous factors affect a borrower's ability to repay or refinance loans at maturity, including national and local economic conditions, a downturn in a borrower's industry, loss of one or more principal customers and conditions in the credit markets. A deterioration in a company's financial condition or prospects may be accompanied by a deterioration in the collateral for the bank loan or any ABS backed by such company's loans.

In addition, private equity investments may also have a greater risk of loss than senior secured or other financing since such investments are subordinate to debt of the issuer, are not secured by property underlying the investment and may be illiquid, depending upon the existence of a market for the issuer's securities, the length of time we have held the investment and any rights we may have to require registration under the Securities Act.

***Our due diligence may not reveal all of an entity's liabilities and other weaknesses in its business.***

Before investing in the securities of any issuer, we will assess the strength and skills of the issuer's management, the value of any collateral securing debt securities, the ability of the issuer and the collateral to service the debt and other factors that we believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we will rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to newly-organized entities because there may be little or no information publicly available about the entities or, with respect to debt securities, any underlying collateral. Our due diligence processes, however, may not uncover all facts that may be relevant to an investment decision.

## **Table of Contents**

### **Risks Related to this Offering**

*We cannot assure that an active trading market will be sustained.*

Before our February 2006 initial public offering, there had not been a public market for our common stock. While there has been significant trading in our common stock since our February 2006 initial public offering, we cannot assure you that an active trading market for the shares of common stock offered hereby will be sustained. In the absence of an active public trading market, an investor may be unable to liquidate an investment in our common stock. We cannot assure you that the price at which the shares of common stock are selling in the public market will not decline.

*The market price of our common stock may vary substantially.*

The market price of our common stock may be highly volatile and subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

actual or anticipated variations in our quarterly operating results or distributions;

changes in our earnings estimates or publication of research reports about us or the real estate or specialty finance industry;

increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community; and

general market and economic conditions.

*Future offerings of debt securities, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may reduce the market price of our common stock.*

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities. Upon liquidation, holders of our debt securities and shares of preferred stock, if any, and lenders with respect to other borrowings will receive a distribution of our available assets before we can make any distributions to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or dividend payments that could limit our ability to make distributions to the holders of our

## Edgar Filing: Resource Capital Corp. - Form S-11/A

common stock. Issuance of substantial amounts of our common stock, including shares of our common stock issued pursuant to our incentive plan, or the perception that these issuances could occur, could depress the price of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings.

*Future sales of shares of our common stock may depress the price of our shares.*

We cannot predict the effect, if any, that future issuances of shares of our common stock or the availability of shares for resale in the open market will have on the market price of our common stock. Sales of substantial

## **Table of Contents**

numbers of shares of our common stock in the public market, or the perception that such sales might occur, could reduce the market price of our common stock. We distributed warrants to purchase an aggregate of 1,568,244 shares of our common stock on January 13, 2006 as a dividend to our stockholders of record as of January 4, 2006 and have agreed to file a registration statement with respect to the resale of those shares within 180 days following the date when the warrants become exercisable.

We also may issue additional common stock in connection with the acquisition of investments and we may grant additional demand or piggyback registration rights in connection with such issuances.

Sales of substantial amounts of common stock or the perception that such sales could occur could reduce the price that our common stock might otherwise obtain.

### ***Future sales of shares of our common stock by the Manager may depress the price of our shares.***

Our management agreement provides that we will pay at least 25% of the Manager's incentive compensation in shares of our common stock. The Manager may, in its sole discretion, elect to receive a greater percentage of its incentive compensation in shares of our common stock. However, the Manager may not accept common stock in payment of its incentive fees if the payment would result in Resource America and its affiliates, including the Manager, owning more than 15% of our common stock. The Manager has registration rights with respect to the shares it receives as incentive compensation which, if exercised, would allow it to freely sell the shares. As a result of the close relationship between the Manager and us, sales of our common stock by the Manager, or the perception that such sales could occur, may cause the market price of our shares to decline and such decline could be disproportionate to the number of shares sold.

### ***Your interest in us may be diluted if we issue additional shares.***

Existing stockholders and potential investors in this offering do not have preemptive rights to any common stock issued by us in the future. Therefore, investors purchasing shares in this offering may experience dilution of their equity investment if we sell additional common stock in the future, sell securities that are convertible into common stock or issue shares of common stock, including shares issued as incentive compensation under our management agreement, or options exercisable for shares of common stock.

### ***An increase in market interest rates may reduce the market price of our common stock.***

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our common stock. For example, if market rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, decreasing cash flow and our ability to service our indebtedness and pay distributions.

### ***Some of our underwriters have interests in the successful completion of this offering beyond the underwriting discounts and commissions they will receive.***

Credit Suisse Securities (USA) LLC, one of our underwriters, has entered into repurchase agreements with us under which \$619.4 million was outstanding at September 30, 2006. A portion of the indebtedness under these repurchase agreements has been repaid in connection with the sale of our agency ABS-RMBS sale that settled on October 2, 2006. In addition, Credit Suisse International, an affiliate of Credit Suisse Securities (USA) LLC,

## **Table of Contents**

entered into four interest rate swaps with us between July 27, 2006 and September 29, 2006 in an aggregate amount of \$100.7 million. These swaps mature between May 25, 2016 and September 1, 2016. As a result of these relationships, some of our underwriters have an interest in the successful completion of this offering beyond the underwriting discounts and commissions they will receive.

### **Risks Related to Our Organization and Structure**

*Our charter and bylaws contain provisions that may inhibit potential acquisition bids that you and other stockholders may consider favorable, and the market price of our common stock may be lower as a result.*

Our charter and bylaws contain provisions that may have an anti-takeover effect and inhibit a change in our board of directors. These provisions include the following:

*There are ownership limits and restrictions on transferability and ownership in our charter.* For purposes of assisting us in maintaining our REIT qualification under the Internal Revenue Code, our charter generally prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our outstanding capital stock. This restriction may:

discourage a tender offer or other transactions or a change in the composition of our board of directors or control that might involve a premium price for our shares or otherwise be in the best interests of our stockholders; or

result in shares issued or transferred in violation of such restrictions being automatically transferred to a trust for a charitable beneficiary, resulting in the forfeiture of those shares.

*Our charter permits our board of directors to issue stock with terms that may discourage a third party from acquiring us.* Our board of directors may amend our charter without stockholder approval to increase the total number of authorized shares of stock or the number of shares of any class or series and issue common or preferred stock having preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications, or terms or conditions of redemption as determined by our board. Thus, our board could authorize the issuance of stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price.

*Our charter and bylaws contain other possible anti-takeover provisions.* Our charter and bylaws contain other provisions that may have the effect of delaying or preventing a change in control of us or the removal of existing directors and, as a result, could prevent our stockholders from being paid a premium for their common stock over the then-prevailing market price.

***Maryland takeover statutes may prevent a change in control of us, and the market price of our common stock may be lower as a result.***

*Maryland Control Share Acquisition Act.* Maryland law provides that control shares of a corporation acquired in a control share acquisition will have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. The act defines control shares as voting shares of stock that, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror 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. A control share acquisition means the acquisition of control shares, subject to specific exceptions.

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders meeting or if the acquiring person does not deliver an acquiring person statement as required by the Maryland



## **Table of Contents**

Control Share Acquisition Act then, subject to specific conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our board of directors may amend our bylaws in the future to repeal this exemption.

*Business combinations.* Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited 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. An interested stockholder is defined as:

any person who beneficially owns ten percent or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period before the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which such person otherwise would have become an interested stockholder. However, in approving a transaction, the 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 the board.

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

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's 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 shares.

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

***Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.***

Our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present or former director or officer, to the maximum

extent permitted by Maryland law, in the



## **Table of Contents**

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 to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

### ***Our right to take action against the Manager is limited.***

The obligation of the Manager under the management agreement is to render its services in good faith. It will not be responsible for any action taken by our board of directors or investment committee in following or declining to follow its advice and recommendations. Furthermore, as discussed above under **Risks Related to Our Business**, it will be difficult and costly for us to terminate the management agreement without cause. In addition, we will indemnify the Manager, Resource America and their officers and affiliates for any actions taken by them in good faith.

### ***We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future. We may in the future use uninvested offering proceeds or borrowed funds to make distributions.***

We expect to make quarterly distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to make distributions may be impaired by the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We may not be able to make distributions in the future. In addition, some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated taxable earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes. A return of capital is not taxable, but it has the effect of reducing the holder's tax basis in its investment. Although we currently do not expect that we will do so, we may also use uninvested offering proceeds or borrowed funds to make distributions. During 2006, we borrowed funds and used uninvested proceeds to make distributions. The distributions exceeded GAAP net income for the nine months ended September 30, 2006 by \$10.1 million. This amount included a loss on the sale of our agency ABS-RMBS portfolio, net of hedging activities, of \$8.8 million. If we use uninvested offering proceeds to pay distributions in the future, we will have less funds available for investment and, as a result, our earnings and cash available for distribution would be less than we might otherwise have realized had such funds been invested. Similarly, if we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

## **Tax Risks**

### ***Complying with REIT requirements may cause us to forego otherwise attractive opportunities.***

To qualify as a REIT for federal income tax purposes, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our common stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance.

In particular, at least 75% of our assets at the end of each calendar quarter must consist of real estate assets, government securities, cash and cash items. For this purpose, real estate assets generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other entities that qualify as REITs, interests in mortgage loans secured by real property, investments in stock or debt instruments during the one-year period following the receipt of new capital and regular or residual interests in Real Estate Mortgage Investment Conduit, or a REMIC. In addition, the amount of securities of a single issuer, other than a TRS, that we hold must generally not exceed either 5% of the value of our gross assets or 10% of the vote or value of such issuer's outstanding securities.

---

## **Table of Contents**

Certain of the assets that we hold or intend to hold, including interests in CDOs or corporate leveraged loans, are not qualified and will not be qualified real estate assets for purposes of the REIT asset tests. ABS-RMBS and CMBS securities should generally qualify as real estate assets. However, to the extent that we own non-REMIC collateralized mortgage obligations or other debt instruments secured by mortgage loans (rather than by real property) or secured by non-real estate assets, or debt securities that are not secured by mortgages on real property, those securities are likely not qualifying real estate assets for purposes of the REIT asset test, and will not produce qualifying real estate income. Further, whether securities held by warehouse lenders or financed using repurchase agreements are treated as qualifying assets or as generating qualifying real estate income for purposes of the REIT asset and income tests depends on the terms of the warehouse or repurchase financing arrangement.

We generally will be treated as the owner of any assets that collateralize CDO transactions to the extent that we retain all of the equity of the securitization vehicle and do not make an election to treat such securitization vehicle as a TRS, as described in further detail below. It may be possible to reduce the impact of the REIT asset and gross income requirements by holding certain assets through our TRSs, subject to certain limitations as described below.

***Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of securities in which we invest, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate level tax.***

When purchasing securities, we have relied and may rely on opinions or advice of counsel for the issuer of such securities, or statements, made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, and also to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the 75% REIT gross income test. In addition, when purchasing CDO equity, we have relied and may rely on opinions or advice of counsel regarding the qualification of interests in the debt of such CDOs for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

***We may realize excess inclusion income that would increase our tax liability and that of our stockholders.***

If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses of the stockholders. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is a foreign person, it would be subject to federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

Excess inclusion income could result if we hold a residual interest in a real estate mortgage investment conduit, or REMIC. Excess inclusion income also could be generated if we issue debt obligations, such as certain CDOs, with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage related securities securing those debt obligations, i.e., if we were to own an interest in a taxable mortgage pool. While we do not expect to acquire significant amounts of residual interests in REMICs, we do own residual interests in taxable mortgage pools, which means that we will likely generate significant amounts of excess inclusion income.

If we realize excess inclusion income, we will be taxed at the highest corporate income tax rate on a portion of such income that is allocable to the percentage of our stock held in record name by disqualified organizations, which are generally cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business taxable income. To the extent that our stock owned by disqualified organizations is held in record name by a broker/dealer or other nominee, the broker/dealer or other nominee would be liable for the corporate level tax on the portion of our excess inclusion income allocable to the stock

---

**Table of Contents**

held by the broker/dealer or other nominee on behalf of disqualified organizations. We expect that disqualified organizations will own our stock. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A regulated investment company or other pass through entity owning stock in record name will be subject to tax at the highest corporate rate on any excess inclusion income allocated to its owners that are disqualified organizations. Finally, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations, for federal income tax purposes that cannot be included in any consolidated corporate tax return.

***Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.***

We believe that we have been organized and operated in a manner that has enabled us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended on December 31, 2005. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we will be subject to federal income tax, including any applicable alternative minimum tax on our taxable income, at regular corporate rates. Distributions to stockholders would not be deductible in computing our taxable income. Corporate tax liability would reduce the amount of cash available for distribution to our stockholders. Under some circumstances, we might need to borrow money or sell assets in order to pay that tax. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for the statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income, determined without regard to the dividends paid deduction and not including net capital gains, to our stockholders. Unless our failure to qualify as a REIT were excused under federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. In addition, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations for U.S. federal income tax purposes.

***Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.***

In order to qualify as a REIT, in each calendar year we must distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

85% of our ordinary income for that year;

95% of our capital gain net income for that year; and

100% our undistributed taxable income from prior years.

We intend to make distributions to our stockholders in a manner intended to satisfy the 90% distribution requirement and to distribute all or substantially all of our net taxable income to avoid both corporate income tax and the 4% nondeductible excise tax. There is no requirement that a domestic TRS distribute its after-tax net income to its parent REIT or their stockholders and Resource TRS may determine not to make any distributions to us. However, foreign non-U.S. TRSs, such as Apidos CDO I and Apidos CDO III, will generally be deemed to distribute their earnings to us on an annual basis for federal income tax purposes, regardless of whether such TRSs actually distribute their earnings.

## **Table of Contents**

Our taxable income may substantially exceed our net income as determined by GAAP because, for example, realized capital losses will be deducted in determining our GAAP net income but may not be deductible in computing our taxable income. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets, referred to as phantom income. Although some types of phantom income are excluded to the extent they exceed 5% of our REIT taxable income in determining the 90% distribution requirement, we will incur corporate income tax and the 4% nondeductible excise tax with respect to any phantom income items if we do not distribute those items on an annual basis. As a result, we may generate less cash flow than taxable income in a particular year. In that event, we may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or times that we regard as unfavorable in order to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

***If we make distributions in excess of our current and accumulated earnings and profits, they will be treated as a return of capital, which will reduce the adjusted basis of your stock. To the extent such distributions exceed your adjusted basis, you may recognize a capital gain.***

Unless you are a tax-exempt entity, distributions that we make to you generally will be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits as determined for federal income tax purposes. If the amount we distribute to you exceeds your allocable share of our current and accumulated earnings and profits, the excess will be treated as a return of capital to the extent of your adjusted basis in your stock, which will reduce your basis in your stock but will not be subject to tax. To the extent the amount we distribute to you exceeds both your allocable share of our current and accumulated earnings and profits and your adjusted basis, this excess amount will be treated as a gain from the sale or exchange of a capital asset. For risks related to the use of uninvested offering proceeds or borrowings to fund distributions to stockholders, see [Risks Related to Our Organization and Structure](#). We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future.

***Our ownership of and relationship with our TRS will be limited and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.***

A REIT may own up to 100% of the securities of one or more TRSs. A TRS may earn specified types of income or hold specified assets that would not be qualifying income or assets if earned or held directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns, whether or not it distributes that income to us. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Resource TRS will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. Income that is not distributed to us by Resource TRS will not be subject to the REIT 90% distribution requirement and therefore will not be available for distributions to our stockholders. We anticipate that the aggregate value of the securities of Resource TRS, together with the securities we hold in our other TRSs, including Apidos CDO I and Apidos CDO III, will be less than 20% of the value of our total assets, including our TRS securities. We will monitor the compliance of our investments in TRSs with the rules relating to value of assets and transactions not on an arm's-length basis. We cannot assure you, however, that we will be able to comply with such rules.

***Complying with REIT requirements may limit our ability to hedge effectively.***

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge mortgage-backed securities and related borrowings. Under these provisions, our annual gross income from qualifying and

---

**Table of Contents**

non-qualifying hedges of our borrowings, together with any other income not generated from qualifying real estate assets, cannot exceed 25% of our gross income. In addition, our aggregate gross income from non-qualifying hedges, fees and certain other non-qualifying sources cannot exceed 5% of our annual gross income determined without regard to income from qualifying hedges. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through Resource TRS. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

***The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for federal income tax purposes.***

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were able to sell or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans and may limit the structures we utilize for our securitization transactions even though such sales or structures might otherwise be beneficial to us.

***Tax law changes could depress the market price of our common stock.***

The federal income tax laws governing REITs or the administrative interpretations of those laws may be amended at any time. We cannot predict when or if any new federal income tax law or administrative interpretation, or any amendment to any existing federal income tax law or administrative interpretation, will become effective and any such law or interpretation may take effect retroactively. Tax law changes could depress our stock price or restrict our operations.

***Dividends paid by REITs do not qualify for the reduced tax rates provided for under current law.***

Dividends paid by REITs are generally not eligible for the reduced 15% maximum tax rate for dividends paid to individuals under recently enacted tax legislation. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could reduce the value of the stocks of REITs.

***We may lose our REIT qualification or be subject to a penalty tax if the Internal Revenue Service successfully challenges our characterization of income inclusions from our foreign TRSs.***

We likely will be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs, including from our current and contemplated equity investments in CDOs, such as our investment in Apidos CDO I and Apidos CDO III. We intend to treat certain of these income inclusions as qualifying income for purposes of the 95% gross income test applicable to REITs but not for purposes of the REIT 75% gross income test. The provisions that set forth what income is qualifying income for purposes of the 95% gross income test provide that gross income derived from dividends, interest and other enumerated classes of passive income qualify for purposes of the 95% gross income test. Income inclusions from equity investments in our foreign TRSs are technically neither dividends nor any of the other enumerated categories of income specified in the 95% gross income test for U.S. federal income tax purposes, and there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests. However, based on advice of counsel, we intend to treat such income inclusions, to the extent distributed by a foreign TRS in the year accrued, as qualifying income for purposes of the 95% gross income test. Nevertheless, because this income does not meet the literal requirements of the REIT provisions, it is possible that the IRS could successfully take the position that it is not qualifying income. In the event that it was determined not to qualify for the 95% gross

**Table of Contents**

income test, we would be subject to a penalty tax with respect to the income to the extent it and other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT. See Federal Income Tax Consequences of Our Qualification as a REIT. In addition, if such income was determined not to qualify for the 95% gross income test, we would need to invest in sufficient qualifying assets, or sell some of our interests in our foreign TRSs to ensure that the income recognized by us from our foreign TRSs or such other corporations does not exceed 5% of our gross income, or cease to qualify as a REIT.

***The failure of a loan subject to a repurchase agreement or a mezzanine loan to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.***

We have entered into and we intend to continue to enter into sale and repurchase agreements under which we nominally sell certain of our loan assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we have been and will be treated for U.S. federal income tax purposes as the owner of the loan assets that are the subject of any such agreement notwithstanding that the agreement 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 the loan assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

In addition, we have acquired and will continue to acquire mezzanine loans, which are loans secured by equity interest in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We have acquired and will continue to acquire mezzanine loans that may not meet all of the requirements for reliance on this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge the loan's treatment as a real estate asset for purposes of the REIT asset and income tests, and if the challenge were sustained, we could fail to qualify as a REIT.

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements under Summary, Risk Factors, Distribution Policy, Business and elsewhere in this prospectus constitute forward-looking statements. 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, potential, project, should, will and would or the negative or 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. Forward-looking statements we make in this offering memorandum are subject to various risks and uncertainties that could cause actual results to vary from our forward-looking statements, including:

the factors described in this prospectus, including those set forth under the sections captioned Risk Factors and Business;

our future operating results;

our business prospects;

general volatility of the securities markets in which we invest and the market price of our common stock;

changes in our business strategy;

availability, terms and deployment of capital;

availability of qualified personnel;

changes in our industry, interest rates, the debt securities markets, real estate markets or the general economy;

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

increased prepayments of the mortgage and other loans underlying our MBS or other ABS;

changes in governmental regulations, tax rates and similar matters;

availability of investment opportunities in real estate-related and commercial finance assets;

the degree and nature of our competition;

the adequacy of our cash reserves and working capital; and

the timing of cash flows, if any, from our investments.



**Table of Contents****USE OF PROCEEDS**

We estimate that the net proceeds from our sale of 6,000,000 shares of common stock in this offering will be approximately \$95.3 million (or approximately \$109.7 million if the underwriters exercise their over-allotment option in full), after deducting underwriting discounts and commissions of approximately \$5.6 million (or approximately \$6.4 million if the underwriters exercise their over-allotment option in full) and estimated offering expenses payable by us of \$600,000. We intend to use all of the net proceeds of this offering to repay a portion of the outstanding indebtedness under our repurchase agreements which, as of December 7, 2006, were as follows:

<b>Repurchase agreement counterparties</b>	<b>Amount outstanding</b>	<b>Borrowing rate</b>	<b>Original maturity</b>
Credit Suisse Securities (USA) LLC and affiliates	\$ 93,457,125	6.51%	December 15, 2006
Bear, Stearns International Limited and affiliates	\$ 40,357,000	6.40%	December 15, 2006

Amounts repaid may be reborrowed from time to time, subject to compliance with borrowing conditions. Credit Suisse Securities (USA) LLC, one of our underwriters, will receive a portion of the net proceeds received by us from this offering through the repayment of indebtedness under these repurchase agreements. We used the proceeds of the repurchase agreements set forth above to finance the acquisition of our commercial real estate loan portfolio. These repurchase agreements typically expire every 30 days; however, we expect that they will be extended for consecutive 30-day periods.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2006 on an actual basis and on an as adjusted basis giving effect to the sale of common stock by us in this offering and the application of net proceeds described in Use of Proceeds.

You should read this table together with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus.

	<b>As of September 30, 2006</b>	
	<b>Actual<sup>(1)</sup></b>	<b>As adjusted</b>
	<b>(dollars in thousands)</b>	
<b>Debt:</b>		
Repurchase agreements, including accrued interest of \$1,012	\$ 770,167	\$ 674,831
Collateralized debt obligations, net of debt issuance costs of \$18,730	1,206,751	1,206,751
Secured term facility	87,080	87,080
Distribution payable	6,594	6,594
Accrued interest expense	11,357	11,357
Unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities	51,548	51,548
<b>Stockholders' equity:</b>		
Preferred stock, par value \$0.001 per share; 100,000,000 shares authorized; no shares outstanding, actual and as adjusted		
Common stock, par value \$0.001; 500,000,000 shares authorized; 17,821,434 shares issued and outstanding (including 234,224 restricted shares), actual; 23,821,434 shares issued and outstanding, as adjusted	18	24
Additional paid-in capital	247,934	343,264
Deferred equity compensation	(1,364)	(1,364)
Accumulated other comprehensive loss	(3,951)	(3,951)
Distributions in excess of earnings	(12,650)	(12,650)
<b>Total stockholders' equity</b>	<b>229,987</b>	<b>325,323</b>
<b>Total capitalization</b>	<b>\$ 2,363,484</b>	<b>\$ 2,363,484</b>

- (1) Includes 345,000 shares of restricted stock granted to Resource Capital Manager upon completion of our March 2005 private offering. Does not include options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 that we granted to Resource Capital Manager at the same time. Resource Capital Manager has the right in its discretion to allocate these shares and options to its officers, employees and other individuals who provide services to it and has so allocated 344,079 shares of restricted stock and 649,500 options to purchase our common stock. Also includes (i) an aggregate of 8,224 shares of common stock granted to our independent directors under our stock incentive plan and (ii) 14,076 shares of common stock granted to Resource Capital Manager as incentive compensation under our management agreement. Also does not include 328,443 shares of our common stock available for future grant under our stock incentive plan. See Management's 2005 Stock Incentive Plan.

**Table of Contents**

**PRICE RANGE OF OUR COMMON STOCK AND DISTRIBUTIONS**

Our common stock is listed on the NYSE under the symbol RSO. The following table sets forth the high and low sales prices of our common stock and the amount of distributions we have declared for the periods indicated.

	<b>High</b>	<b>Low</b>	<b>Distributions declared<sup>(1)</sup></b>
October 1, 2006 to December 7, 2006	\$ 17.73	\$ 15.09	\$ 0.38 <sup>(2)</sup>
July 1, 2006 to September 30, 2006	15.67	12.01	0.37
April 1, 2006 to June 30, 2006	14.23	12.00	0.36
February 7, 2006 to March 31, 2006	14.79	13.67	0.33

(1) Distributions are shown in the quarter with respect to which they were declared.

(2) Declared on December 8, 2006 and payable on January 4, 2007 to stockholders of record on December 15, 2006. Purchasers in this offering will not participate in the distribution.

As of December 6, 2006, we had 17,821,434 shares of our common stock outstanding which were held by 38 holders of record.

**Table of Contents**

**DISTRIBUTION POLICY**

We elected to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2005. Federal income tax law requires that a REIT distribute with respect to each year at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. REIT taxable income does not necessarily equal net income as calculated in accordance with GAAP. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. We may generate less cash flow than REIT taxable income in a particular year. In that event, we may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or times that we regard as unfavorable in order to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

Up to 20% of the value of a REIT's assets may consist of investments in the securities of one or more TRSs. A domestic TRS, such as Resource TRS, may retain its net income, and its earnings are subject to the 90% distribution requirement only to the extent the TRS actually distributes its earnings to the REIT. However, if a REIT invests in a foreign TRS, such as our investment in Apidos CDO I, Apidos CDO III and other CDOs in which we intend to invest, the REIT must include in its income the earnings of the foreign TRS on an annual basis for federal income tax purposes, regardless of whether the foreign TRS actually distributes its earnings. The net income of a domestic TRS, such as Resource TRS, is subject to federal income tax at regular corporate rates, regardless of whether such income is retained or distributed to us. For more information, please see [Federal Income Tax Consequences of Our Qualification as a REIT](#) Taxation of Our Company.

To maintain our qualification as a REIT under the Internal Revenue Code, we intend to make regular quarterly distributions to our stockholders of at least 90% of our REIT taxable income, which is determined as of the close of our taxable year. Further, to avoid any REIT level corporate income tax and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net taxable income. On September 19, 2006, our board of directors declared a quarterly distribution of \$6.6 million, or \$0.37 per share of our common stock, payable on October 13, 2006 to stockholders of record on September 29, 2006. Our GAAP net loss for the quarter ended September 30, 2006 was \$2.4 million, resulting from our determination to redeploy the capital allocated to our agency ABS-RMBS portfolio to higher-yielding asset classes, and our estimated REIT taxable income was \$9.2 million. On December 8, 2006, our board of directors declared a regular quarterly distribution of \$6.8 million, or \$0.38 per share of our common stock, and a special distribution of \$891,000, or \$0.05 per share of our common stock. These distributions will be payable on January 4, 2007 to stockholders of record on December 15, 2006. The special distribution relates to hedging gains realized during 2006 and is being made so that we distribute at least 90% of our ordinary REIT taxable income. Purchasers in this offering will not participate in either the quarterly distribution or the special distribution.

We anticipate that our distributions generally will be taxable as ordinary income to our stockholders, although a portion of the distributions may be designated by us as qualified dividend income or capital gain or may constitute a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits for federal income tax purposes, such distributions would generally be considered a return of capital for federal income tax purposes. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following table presents summary historical consolidated financial information as of and for the periods indicated. We derived the information as of December 31, 2005 and for the period March 8, 2005 (date operations commenced) to December 31, 2005 from our consolidated financial statements, which have been audited by Grant Thornton LLP, an independent registered public accounting firm, whose report is included elsewhere in this prospectus. We derived the information for all other periods from our unaudited financial statements included elsewhere in this prospectus. Since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	As of and for the nine months ended September 30, 2006 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to September 30, 2005 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005	As of and for the three months ended September 30, 2006 (unaudited)	As of and for the three months ended September 30, 2005 (unaudited)
<b>Consolidated Income Statement Data:</b>					
Revenues:					
Net interest income:					
Interest income	\$ 103,477	\$ 34,690	\$ 61,387	\$ 39,148	\$ 21,596
Interest expense	78,576	23,736	43,062	30,855	15,595
Net interest income	24,901	10,954	18,325	8,293	6,001
Other revenue:					
Net realized (loss) gain on investments	(8,853)	178	311	(8,314)	192
Other income	391			384	
Total other (loss) revenue	(8,462)	178	311	(7,930)	192
Expenses:					
Management fee expense-related party	3,147	1,839	3,012	917	822
Equity compensation expense-related party	1,620	1,873	2,709	798	836
Professional services	1,266	344	516	480	222
Insurance	372	273	395	126	122
General and administrative	1,220	795	1,096	443	415
Total expenses	7,625	5,124	7,728	2,764	2,417
Net income (loss)	\$ 8,814	\$ 6,008	\$ 10,908	\$ (2,401)	\$ 3,776
Net income (loss) per share basic	\$ 0.51	\$ 0.39	\$ 0.71	\$ (0.14)	\$ 0.25
Net income (loss) per share diluted	\$ 0.51	\$ 0.39	\$ 0.71	\$ (0.14)	\$ 0.24
Weighted average number of shares outstanding basic	17,261,091	15,333,334	15,333,334	17,585,171	15,333,334
Weighted average number of shares outstanding diluted	17,388,566	15,458,133	15,405,714	17,585,171	15,458,133

**Table of Contents**

	As of and for the nine months ended September 30, 2006 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to September 30, 2005 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005	As of and for the three months ended September 30, 2006 (unaudited)	As of and for the three months ended September 30, 2005 (unaudited)
<b>(in thousands, except share and per share data)</b>					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 13,505	\$ 23,444	\$ 17,729	\$ 13,505	\$ 23,444
Restricted cash	29,054	79,098	23,592	29,054	79,098
Receivables on investment securities sold	753,195			753,195	
Available-for-sale securities, pledged as collateral, at fair value	395,844	1,413,602	1,362,392	395,844	1,413,602
Available-for-sale securities, at fair value		35,503	28,285		35,503
Loans	1,054,602	402,564	569,873	1,054,602	402,564
Total assets	2,369,379	2,002,546	2,045,547	2,369,379	2,002,546
Repurchase agreements (including accrued interest of \$1,012, \$1,128, \$2,104, \$1,012 and \$1,128)	770,167	1,059,736	1,068,277	770,167	1,059,736
CDOs (net of debt issuance costs of \$18,730, \$10,371, \$10,093, \$18,730 and \$10,371)	1,206,751	679,129	687,407	1,206,751	679,129
Warehouse agreements		35,255	62,961		35,255
Secured term facility	87,080			87,080	
Unsecured revolving credit facility			15,000		
Unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities	51,548			51,548	
Total liabilities	2,139,392	1,788,764	1,850,214	2,139,392	1,788,764
Total stockholders' equity	229,987	213,782	195,333	229,987	213,782
<b>Other Data:</b>					
Dividends declared per common share	\$ 1.06	\$ 0.20	\$ 0.86	\$ 0.37	\$ 0.20

---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

The following discussion provides information to assist you in understanding our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward looking statements. Please see **Special Note Regarding Forward-Looking Statements** and **Risk Factors** for a discussion of certain risks, uncertainties and assumptions associated with those statements.

**Overview**

We are a commercial real estate specialty finance company that qualifies as a real estate investment trust, or REIT, under Subchapter M of the Internal Revenue Code of 1986, as amended. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets and hedge interest rate risks. We generate revenues from the interest we earn on our whole loans, A notes, B notes, mezzanine debt, CMBS, ABS-RMBS, other ABS, bank loans and payments on equipment leases and notes. We use a substantial amount of leverage to enhance our returns and we finance each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income will depend on our ability to control these expenses relative to our revenue. In our ABS-RMBS, CMBS, other ABS, bank loans and equipment leases and notes, we use warehouse facilities as a short-term financing source and CDOs, and, to a lesser extent, other term financing as a long-term financing source. In our commercial real estate loan portfolio, we use repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as a long-term financing source. We expect that our other term financing will consist of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs.

Before October 2, 2006, we had a significant portfolio of agency ABS-RMBS. In order to redeploy the capital we had invested in this asset class into higher-yielding asset classes, we entered into an agreement to sell this portfolio on September 27, 2006. The sale settled on October 2, 2006, and we have no remaining agency ABS-RMBS. We had financed the acquisition of our agency ABS-RMBS with short-term repurchase arrangements. We also had sought to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency ABS-RMBS and the maturities and repricing dates of the repurchase agreements we used to finance them through derivative instruments, principally floating-to-fixed interest rate swap agreements and interest rate cap agreements. We terminated these derivatives upon completion of the sale of our agency ABS-RMBS.

On March 8, 2005, we received net proceeds of \$214.8 million from a private placement of 15,333,334 shares of common stock. On February 10, 2006, we received net proceeds of \$27.3 million from our initial public offering of 4,000,000 shares of common stock (including 1,879,200 shares sold by certain selling stockholders of ours). As of September 30, 2006, we had invested 20.3% of our portfolio in commercial real estate-related assets, 48.2% in ABS-RMBS and 31.5% in commercial finance assets. As a result of the October 2, 2006 settlement of our agency ABS-RMBS portfolio, our portfolio composition subsequent to the third quarter has shifted so that, as of that date and giving effect to the sale, we had invested 30.3% of our portfolio in commercial real estate-related assets, 22.5% in ABS-RMBS and 47.2% in commercial finance assets.

## **Table of Contents**

We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. If we are unable to maintain the credit quality of our portfolio, however, our earnings will decrease. Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes. To illustrate, after giving effect to the agency ABS-RMBS portfolio settlement on October 2, 2006, our equity was invested 68.0% in commercial real estate-related assets, 21.7% in commercial finance assets and 10.3% in ABS-RMBS. The results of operations discussed below are for the three and nine months ended September 30, 2006, three months ended September 30, 2005 and the period from March 8, 2005 (date operations commenced) to September 30, 2005 (which we refer to as the period ended September 30, 2005).

### **Results of Operations**

Our net loss for the three months ended September 30, 2006, including a net loss of \$8.3 million from the sale of our agency ABS-RMBS portfolio, was \$2.4 million, or \$0.14 per weighted average common share (basic and diluted) as compared to net income of \$3.8 million, or \$0.25 per weighted average common share-basic (\$0.24 per weighted average common share-diluted) for the three months ended September 30, 2005.

Our net income for the nine months ended September 30, 2006, including a net loss of \$8.8 million from the sale of our agency ABS-RMBS portfolio, was \$8.8 million, or \$0.51 per weighted average common share (basic and diluted) as compared to \$6.0 million, or \$0.39 per weighted average common share (basic and diluted) for the period ended September 30, 2005.

### ***Interest Income Three and Nine Months Ended September 30, 2006 as compared to Three Months and Period Ended September 30, 2005***

During 2005, we were in the process of acquiring and building our investment portfolio. As a result, we acquired a substantial portion of our commercial real estate loans and commercial finance assets after the three months and period ended September 30, 2005 had been completed. This balance sheet trend is important in comparing and analyzing the results of operations for the 2006 and 2005 periods presented.

In addition, since we commenced operations on March 8, 2005, results for the period ended September 30, 2005 reflect less than seven months of activity as compared with the nine full months ended September 30, 2006.



**Table of Contents**

The following tables set forth information relating to our interest income recognized for the periods presented (in thousands, except percentages):

	Three months ended		Weighted average			
	September 30, 2006 <sup>(1)</sup>	2005 <sup>(1)</sup>	Rate Three months ended September 30, 2006 <sup>(1)</sup>	Balance 2006	Rate Three months ended September 30, 2005 <sup>(1)</sup>	Balance 2005
<b>Interest income:</b>						
Interest income from securities available-for-sale:						
Agency ABS-RMBS	\$ 9,095	\$ 11,610	4.61%	\$ 788,425	4.53%	\$ 1,039,882
ABS-RMBS	6,363	3,929	7.16%	\$ 347,460	5.18%	\$ 291,784
CMBS	400	394	5.69%	\$ 26,744	5.52%	\$ 28,294
Other ABS	390	299	7.03%	\$ 21,460	5.18%	\$ 22,396
Private equity		16	N/A	N/A	6.18%	\$ 1,000
Total interest income from securities available-for-sale	16,248	16,248				
Interest income from loans:						
Bank loans	12,215	4,125	7.53%	\$ 617,465	5.97%	\$ 272,995
Commercial real estate loans	7,690	739	8.57%	\$ 351,849	6.82%	\$ 42,453
Total interest income from loans	19,905	4,864				
Interest income other:						
Leasing	1,588	14	8.49%	\$ 77,451	9.93%	\$ 546
Interest rate swap agreements	1,130		0.75%	\$ 602,373	N/A	N/A
Temporary investment in over-night repurchase agreements	277	470				
Total interest income other	2,995	484				
<b>Total interest income</b>	<b>\$ 39,148</b>	<b>\$ 21,596</b>				

	Nine months		Weighted average			
	ended September 30, 2006 <sup>(1)</sup>	Period ended September 30, 2005 <sup>(1)</sup>	Rate Nine months ended September 30, 2006 <sup>(1)</sup>	Balance 2006	Rate Period ended September 30, 2005 <sup>(1)</sup>	Balance 2005
<b>Interest income:</b>						
Interest income from securities available-for-sale:						
Agency ABS-RMBS	\$ 28,727	\$ 19,491	4.59%	\$ 802,731	4.45%	\$ 785,781
ABS-RMBS	17,662	6,039	6.65%	\$ 343,291	4.89%	\$ 208,983
CMBS	1,183	707	5.64%	\$ 26,933	5.51%	\$ 22,700
Other ABS	1,071	488	6.51%	\$ 21,446	4.21%	\$ 20,654
Private equity	30	16	16.98%	\$ 227	6.18%	\$ 444
Total interest income from securities available-for-sale	48,673	26,741				
Interest income from loans:						
Bank loans	30,205	5,570	7.19%	\$ 552,458	5.88%	\$ 171,766
Commercial real estate loans	16,420	752	8.46%	\$ 258,091	6.80%	\$ 19,233

## Edgar Filing: Resource Capital Corp. - Form S-11/A

Total interest income from loans	46,625	6,322				
<b>Interest income other:</b>						
Leasing	3,391	14	8.51%	\$ 54,274	9.93%	\$ 242
Interest rate swap agreements	3,792		0.60%	\$ 679,611	N/A	N/A
Temporary investment in over-night repurchase agreements	996	1,613				
<b>Total interest income other</b>	<b>8,179</b>	<b>1,627</b>				
<b>Total interest income</b>	<b>\$ 103,477</b>	<b>\$ 34,690</b>				

---

(1) Certain one-time items reflected in interest income have been excluded in calculating the weighted average rate, since they are not indicative of the expected results.

---

**Table of Contents**

Interest income increased \$17.5 million (81%) and \$68.8 million (198%) to \$39.1 million and \$103.5 million for the three and nine months ended September 30, 2006, respectively, from \$21.6 million and \$34.7 million for the three months and period ended September 30, 2005, respectively. We attribute these increases to the following:

*Interest Income from Securities Available-for-Sale*

Agency ABS-RMBS generated \$9.1 million of interest income for the three months ended September 30, 2006 as compared to \$11.6 million for the three months ended September 30, 2005, a decrease of \$2.5 million (22%). Agency ABS-RMBS generated \$28.7 million of interest income for the nine months ended September 30, 2006 as compared to \$19.5 million for the period ended September 30, 2005, an increase of \$9.2 million (47%). These changes primarily resulted from the following:

The sale of agency ABS-RMBS in January 2006 totaling approximately \$125.4 million.

The receipt of principal payments on agency ABS-RMBS totaling \$169.5 million since September 30, 2005, including \$37.0 million and \$113.4 million during the three and nine months ended September 30, 2006, respectively. Sales and principal repayments were partially offset by the acquisition of \$186.3 million and \$646.1 million of agency ABS-RMBS during the three months and period ended September 30, 2005, which were held for the entire three and nine months ended September 30, 2006.

ABS-RMBS contributed \$6.4 million and \$17.7 million of interest income for the three and nine months ended September 30, 2006, respectively, as compared to \$3.9 million and \$6.0 million for the three months and period ended September, 2005, an increase of \$2.5 million (62%) and \$11.7 million (192%), respectively. These increases resulted primarily from the following:

The acquisition of \$64.6 million and \$332.3 million of ABS-RMBS during the three months and period ended September 30, 2005, which were held for the entire three and nine months ended September 30, 2006, respectively.

The acquisition of \$24.8 million of ABS-RMBS (net of sales of \$8.5 million) since September 30, 2005, including \$6.2 million (net of sales of \$2.0 million) and \$445,000 of such securities acquired during the three and nine months ended September 30, 2006, respectively.

The increase of the weighted average interest rate on these securities to 7.16% and 6.65% for the three and nine months ended September 30, 2006, respectively, from 5.18% and 4.89% for the three months and period ended September 30, 2005, respectively. CMBS contributed \$400,000 and \$1.2 million of interest income for the three and nine months ended September 30, 2006, respectively, as compared to \$394,000 and \$707,000 for the three months and period ended September 30, 2005, an increase of \$6,000 (2%) and \$493,000 (70%), respectively. These increases resulted primarily from the acquisition of \$28.0 million of CMBS during the period ended September 30, 2005, which were held for the entire three and nine months ended September 30, 2006.

Other ABS contributed \$390,000 and \$1.1 million of interest income for the three and nine months ended September 30, 2006, respectively, as compared to 299,000 and \$488,000 for the three months and period ended September 30, 2005, an increase of \$91,000 (30%) and \$612,000 (125%), respectively. These increases resulted primarily from the following:

The acquisition of \$23.1 million of other ABS (net of sales of \$5.5 million) during the period ended September 30, 2005, which were held for the entire three and nine months ended September 30, 2006.

The acquisition of \$771,000 of other ABS during the nine months ended September 30, 2006.

The increase of the weighted average interest rate on these securities to 7.03% and 6.51% for the three and nine months ended September 30, 2006, respectively, from 5.18% and 4.21% for the three months and period ended September 30, 2005, respectively.

---

**Table of Contents**

These acquisitions and the increase in weighted average rate were partially offset by the receipt of principal payments on other ABS totaling \$1.7 million since September 30, 2005, including \$441,000 and \$1.4 million during the three and nine months ended September 30, 2006, respectively.

*Interest Income from Loans*

Bank loans generated \$12.2 million and \$30.2 million of interest income for the three and nine months ended September 30, 2006, respectively, as compared to \$4.1 million and \$5.6 million for the three months and period ended September 30, 2005, an increase of \$8.1 million (196%) and \$24.6 million (442%), respectively. These increases resulted primarily from the following:

The acquisition of \$325.2 million of bank loans (net of sales of \$58.1 million) during the three months and period ended September 30, 2005, which were held for the entire three and nine months ended September 30, 2006.

The acquisition of \$435.6 million of bank loans (net of sales of \$136.7 million) since September 30, 2005, including \$327.1 million (net of sales of \$103.8 million) and \$50.1 million (net of sales of \$40.0 million) during the three and nine months ended September 30, 2006, respectively.

The increase of the weighted average interest rate on these loans to 7.53% and 7.19% for the three and nine months ended September 30, 2006, respectively, from 5.97% and 5.88% for the three months and period ended September 30, 2005, respectively. These acquisitions and the increase in weighted average rate were partially offset by the receipt of principal payments on bank loans totaling \$136.2 million since September 30, 2005, including \$110.7 million and \$40.3 million during the three and nine months ended September 30, 2006, respectively.

Commercial real estate loans produced \$7.7 million and \$16.4 million of interest income for the three and nine months ended September 30, 2006, respectively, as compared to \$739,000 and \$752,000 for the three months and period ended September 30, 2005, an increase of \$7.0 million (941%) and \$15.6 million (2,084%), respectively. These increases resulted entirely from the following:

The acquisition of \$61.6 million of commercial real estate loans during the three months and period ended September 30, 2005, which were held for the entire three and nine months ended September 30, 2006.

The acquisition of \$396.9 million of commercial real estate loans (net of principal payments of \$44.0 million) since September 30, 2005, including \$174.4 million and \$312.2 million (net of principal payments of \$27.5 million and \$44.0 million) during the three and nine months ended September 30, 2006, respectively.

*Interest Income Other*

Our equipment leasing portfolio generated \$1.6 million and \$3.4 million of interest income for the three and nine months ended September 30, 2006, respectively as compared to \$14,000 for both the three months and period ended September 30, 2005, resulting from the purchase of \$97.5 million of equipment leases and notes (net of principal payments of \$31.3 million) since September 30, 2005, including \$35.0 million (net of principal payments of \$21.1 million) and \$185.1 million (net of principal payments of \$29.5 million) of equipment leases and notes acquisitions during the three and nine months ended September 30, 2006, respectively.

Interest rate swap agreements generated \$1.1 million and \$3.8 million of interest income for the three and nine months ended September 30, 2006, respectively, resulting from increases in the floating rate index we receive under our swap agreements. During the prior year periods, the floating rate we received did not exceed the fixed rate we paid under these same agreements. As a result, no interest income from interest rate swap agreements was generated for the three months and period ended September 30, 2005.



**Table of Contents****Interest Expense Three and Nine Months Ended September 30, 2006 as compared to Three Months and Period Ended September 30, 2005**

During 2005, while we were in the process of acquiring and building an investment portfolio, our borrowing obligations grew in tandem with the related underlying assets. Subsequent to September 30, 2005, we added additional borrowings that substantially funded the investment portfolio acquisitions that we discuss in Results of Operations Interest Income. Further, some of the existing borrowings at September 30, 2005 were repaid by new borrowings after September 30, 2005. These developing borrowing trends are important in comparing and analyzing interest expense for the 2006 and 2005 periods presented.

In addition, since we commenced operations on March 8, 2005, results for the period ended September 30, 2005 reflect less than seven months of activity as compared with the nine full months ended September 30, 2006.

The following tables set forth information relating to our interest expense incurred for the periods presented (in thousands, except percentages):

	Three months ended		Rate	Weighted average Balance	Rate	Balance
	September 30, 2006 <sup>(1)</sup>	2005 <sup>(1)</sup>	Three months ended September 30, 2006 <sup>(1)</sup>	Three months ended September 30, 2006	Three months ended September 30, 2005 <sup>(1)</sup>	Three months ended September 30, 2005
<b>Interest expense:</b>						
Agency ABS-RMBS	\$ 9,859	\$ 8,475	5.35%	\$ 720,000	3.63%	\$ 988,000
ABS-RMBS / CMBS / ABS	5,745	3,520	5.99%	\$ 376,000	4.01%	\$ 317,896
Bank loans	8,886	3,035	5.96%	\$ 584,000	4.10%	\$ 318,218
Commercial real estate loans	4,360	81	6.65%	\$ 263,582	5.00%	\$ 6,385
Leasing	1,260		6.32%	\$ 80,194	N/A	N/A
Interest rate swap agreements		484	N/A	N/A	0.22%	\$ 867,527
General	745		9.76%	\$ 29,815	N/A	N/A
<b>Total interest expense</b>	<b>\$ 30,855</b>	<b>\$ 15,595</b>				

	Nine months ended	Period ended	Rate	Weighted average Balance	Rate	Balance
	September 30, 2006 <sup>(1)</sup>	September 30, 2005 <sup>(1)</sup>	Nine months ended September 30, 2006 <sup>(1)</sup>	Nine months ended September 30, 2006	Period ended September 30, 2005 <sup>(1)</sup>	Period ended September 30, 2005
<b>Interest expense:</b>						
Agency ABS-RMBS	\$ 28,394	\$ 13,208	5.01%	\$ 749,100	3.29%	\$ 786,900
ABS-RMBS / CMBS / ABS	15,936	5,502	5.59%	\$ 376,000	3.77%	\$ 238,763
Bank loans	21,990	3,826	5.51%	\$ 520,429	3.64%	\$ 179,665
Commercial real estate loans	8,835	81	6.22%	\$ 185,784	5.00%	\$ 2,838
Leasing	2,208		6.30%	\$ 47,893	N/A	N/A
Interest rate swap agreements		1,119	N/A	N/A	0.33%	\$ 598,191
General	1,213		9.56%	\$ 16,731	N/A	N/A
<b>Total interest expense</b>	<b>\$ 78,576</b>	<b>\$ 23,736</b>				

(1) Certain one-time items reflected in interest expense have been excluded in calculating the weighted average rate, since they are not indicative of the expected results.

---

**Table of Contents**

Interest expense increased \$15.3 million (98%) and \$54.9 million (231%) to \$30.9 million and \$78.6 million for the three and nine months ended September 30, 2006, respectively, from \$15.6 million and \$23.7 million for the three months and period ended September 30, 2005, respectively. We attribute these increases to the following:

Interest expense related to agency ABS-RMBS repurchase agreements was \$9.9 million and \$28.4 million for the three and nine months ended September 30, 2006, respectively, as compared to \$8.5 million and \$13.2 million for the three months and period ended September 30, 2005, respectively, an increase of \$1.4 million (16%) and \$15.2 million (115%), respectively. These increases resulted primarily from the following:

The weighted average interest rate on these repurchase agreement obligations increased to 5.35% and 5.01% for the three and nine months ended September 30, 2006, respectively, from 3.63% and 3.29% for both the three months and period ended September 30, 2005, respectively.

The increase in rates was partially offset by a decrease in the average balance of our repurchase agreements financing our agency ABS-RMBS portfolio. Our average repurchase obligations during the three and nine months ended September 30, 2006 were \$720.0 million and \$749.1 million, respectively.

ABS-RMBS, CMBS and other ABS, which we refer to collectively as ABS, were pooled and financed by Ischus CDO II. Interest expense related to these obligations was \$5.7 million and \$15.9 million for the three and nine months ended September 30, 2006, respectively, as compared to \$3.5 million and \$5.5 million for the three months and period ended September 30, 2005, an increase of \$2.2 million (63%) and \$10.4 million (190%), respectively. These increases resulted primarily from the following:

The weighted average interest rate on the senior notes issued by Ischus CDO II was 5.99% and 5.59% for the three and nine months ended September 30, 2006, respectively, as compared to 4.01% and 3.77% on the warehouse facility and senior notes for the three months and period ended September 30, 2005, respectively.

In July 2005, Ischus CDO II issued \$376.0 million of senior notes consisting of several classes with rates ranging from one-month LIBOR plus 0.27% to one-month LIBOR plus 2.85%. The Ischus CDO II proceeds were used to repay borrowings under a related warehouse facility, which had a balance at the time of repayment of \$317.8 million.

We amortized \$147,000 and \$445,000 of deferred debt issuance costs related to the Ischus CDO II financing for the three and nine months ended September 30, 2006, respectively. No such costs were incurred for the three months and period ended September 30, 2005.

Interest expense on bank loans was \$8.9 million and \$22.0 million for the three and nine months ended September 30, 2006, respectively, as compared to \$3.0 million and \$3.8 million for the three months and period ended September 30, 2005, an increase of \$5.9 million (193%) and \$18.2 million (475%), respectively. These increases resulted primarily from the following:

As a result of the continued acquisitions of bank loans after the closing of Apidos CDO I, we financed our second bank loan CDO (Apidos CDO III) in May 2006. Apidos CDO III issued \$262.5 million of senior notes into several classes with rates ranging from three-month LIBOR plus 0.26% to three-month LIBOR plus 4.25%. We used the Apidos CDO III proceeds to repay borrowings under a warehouse facility which had a balance at the time of repayment of \$222.6 million. The weighted average interest rate on the senior notes was 5.76% and 5.33% for the three and nine months ended September 30, 2006, respectively. The warehouse facility did not exist as of September 30, 2005, so we incurred no warehouse interest expense in the prior year periods.

In August 2005, Apidos CDO I issued \$321.5 million of senior notes consisting of several classes with rates ranging from three-month LIBOR plus 0.26% to a fixed rate of 9.251%. The Apidos CDO I financing proceeds were used to repay borrowings under a related



warehouse facility, which had a balance at the time of repayment of \$219.8 million. The weighted average interest rate on the senior

**Table of Contents**

notes was 5.84% and 5.40% for the three and nine months ended September 30, 2006, respectively, as compared to 4.11% and 3.63% on the warehouse facility and senior notes for the three months and period ended September 30, 2005.

We amortized \$229,000 and \$558,000 of deferred debt issuance costs related to the CDO financings for the three and nine months ended September 30, 2006, respectively. No such costs were incurred for the three months and period ended September 30, 2005. Interest expense on commercial real estate loans was \$4.4 million and \$8.8 million for the three and nine months ended September 30, 2006, respectively, as compared to \$81,000 for both the three months and period ended September 30, 2005. These increases resulted primarily from the following:

We closed our first commercial real estate loan CDO, Resource Real Estate Funding CDO 2006-1 in August 2006. Resource Real Estate Funding CDO 2006-1 issued \$308.7 million of senior notes at par consisting of several classes with rates ranging from one month LIBOR plus 0.32% to one-month LIBOR plus 3.75%. Prior to August 10, 2006, we financed these commercial real estate loans primarily with repurchase agreements. The Resource Real Estate Funding CDO 2006-1 financing proceeds were used to repay a majority of these repurchase agreements, which had a balance at August 10, 2006 of \$189.6 million. The weighted average interest rate on the senior notes was 6.17% for the three months and nine months ended September 30, 2006. The warehouse facility did not exist as of September 30, 2005, so we incurred no warehouse interest expense in the prior year periods.

We amortized \$91,000 of deferred debt issuance costs related to the Resource Real Estate Funding CDO 2006-1 closing for the three and nine months ended September 30, 2006. No such costs were incurred during the three months and period ended September 30, 2005.

As a result of the growth of our commercial real estate loan portfolio after the closing of Resource Real Estate Funding CDO 2006-1, we continued to finance our commercial real estate loans primarily with repurchase agreements through September 30, 2006. We had \$53.8 million and \$56.2 million of repurchase agreements outstanding at September 30, 2006 and September 30, 2005, respectively. We had a weighted average interest rate of 6.56% and 6.57% for the three and nine months ended September 30, 2006, respectively, as compared to 5.00% for the three months and period ended September 30, 2005.

Interest expense on leasing activities was \$1.3 million and \$2.2 million for the three and nine months ended September 30, 2006, respectively, resulting from the financing of direct financing leases and notes acquired since September 30, 2005 with our secured term credit facility. At September 30, 2006, we had an outstanding balance of \$87.1 million with an interest rate of 6.34%. We did not execute financing on our equipment leasing and notes portfolio until after the period ended September 30, 2005, therefore we did not incur interest expense during the three months and period ended September 30, 2005.

***Net Realized Gains (Losses) on Investments Three Months Ended September 30, 2006 as compared to Three Months Ended September 30, 2005***

Net realized loss on investments for the three months ended September 30, 2006 of \$8.3 million primarily resulted from a \$10.9 million gross loss on the sale of our agency ABS-RMBS portfolio on September 27, 2006, which settled on October 2, 2006, offset by a \$2.6 million gain on the termination of the corresponding amortizing swap agreement.

***Net Realized Gains (Losses) on Investments Nine Months Ended September 30, 2006 as compared to the Period Ended September 30, 2005***

Net realized loss on investments for the nine months ended September 30, 2006 of \$8.9 million consisted of \$12.3 million of gross losses related to the sale of our agency ABS-RMBS portfolio, offset by a \$2.6 million gain

**Table of Contents**

on termination of our amortizing swap agreement in connection with the sale of our agency ABS-RMBS portfolio in September 2006, \$282,000 of net realized gains on the sale of bank loans and \$577,000 of gains related to the early termination of two equipment leases. Net realized gain on investments for the period ended September 30, 2005 of \$178,000 primarily consisted of \$174,000 of gains related to the sale of bank loans.

**Other Income Three Months Ended September 30, 2006 as compared to Three Months Ended September 30, 2005**

Other income for the three months ended September 30, 2006 of \$384,000 consisted of a \$275,000 prepayment premium paid in connection with the payoff of one mezzanine loan, \$90,000 of consulting fee income and \$19,000 of dividend income. There was no such income for the three months ended September 30, 2005.

**Other Income Nine Months Ended September 30, 2006 as compared to the Period Ended September 30, 2005**

Other income for the nine months ended September 30, 2006 of \$391,000 consisted of a \$275,000 prepayment premium paid in connection with the payoff of one mezzanine loan, \$90,000 of consulting fee income and \$26,000 of dividend income. There was no such income for the period ended September 30, 2005.

**Non-Investment Expenses Three and Nine Months Ended September 30, 2006 as compared to Three Months and Period Ended September 30, 2005**

The following table sets forth information relating to our non-investment expenses incurred for the periods presented (in thousands):

	Three months ended September 30,		Nine months ended	Period ended
	2006	2005	September 30,	September 30,
	2006	2005	2006	2005
<b>Non-investment expenses:</b>				
Management fee related party	\$ 917	\$ 822	\$ 3,147	\$ 1,839
Equity compensation related party	798	836	1,620	1,873
Professional services	480	222	1,266	344
Insurance	126	122	372	273
General and administrative	443	415	1,220	795
<b>Total non-investment expenses</b>	<b>\$ 2,764</b>	<b>\$ 2,417</b>	<b>\$ 7,625</b>	<b>\$ 5,124</b>

Since we commenced operations on March 8, 2005, results for the period ended September 30, 2005 reflect less than seven months of activity as compared with the nine full months ended September 30, 2006.

Management fee related party increased \$95,000 (12%) and \$1.3 million (71%) to \$917,000 and \$3.1 million for the three and nine months ended September 30, 2006, respectively, as compared to \$822,000 and \$1.8 million for the three months and period ended September 30, 2005, respectively. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement. The base management fees increased by \$95,000 (11%) and \$900,000 (50%) to \$917,000 and \$2.7 million for the three and nine months ended September 30, 2006, respectively, as compared to \$822,000 and \$1.8 million for the three months and period ended September 30, 2005, respectively. These increases were due to increased equity as a result of our public offering in February 2006. Incentive management fees were \$433,000 for the nine months ended September 30, 2006. The Manager did not earn an incentive management fee for the three months and period ended September 30, 2005 or the three months ended September 30, 2006.

**Table of Contents**

Equity compensation related party decreased \$38,000 (5%) and \$300,000 (16%) to \$798,000 and \$1.6 million for the three and nine months ended September 30, 2006, respectively, as compared to \$836,000 and \$1.9 million for the three months and period ended September 30, 2005, respectively. These expenses relate to the amortization of the March 8, 2005 grant of restricted common stock to the Manager, the March 8, 2005 and 2006 grants of restricted common stock to our non-employee independent directors and the March 8, 2005 grant of options to the Manager to purchase common stock. The decreases in expense were primarily the result of an adjustment related to our quarterly remeasurement of unvested stock and options to reflect changes in fair value of our common stock.

Professional services increased \$258,000 (116%) and \$956,000 (278%) to \$480,000 and \$1.3 million for the three and nine months ended September 30, 2006, respectively, as compared to \$222,000 and \$344,000 for the three months and period ended September 30, 2005. These increases were primarily due to an increase in audit and tax fees associated with the closing of Apidos CDO III and an increase in legal fees in connection with our general corporate operations and compliance.

Insurance increased \$4,000 (3%) and \$99,000 (36%) to \$126,000 and \$372,000 for the three and nine months ended September 30, 2006, respectively, as compared to \$122,000 and \$273,000 for the three months and period ended September 30, 2005, respectively. These amounts represent amortization related to our purchase of directors and officers insurance. The increase for the nine months ended September 30, 2006 was due to the fact that the period ended September 30, 2005 did not contain a full nine months of operations, but rather covered the period from our initial date of operations, March 8, 2005, through September 30, 2005, as compared to the full nine months ended September 30, 2006.

General and administrative expenses increased \$28,000 (7%) and \$405,000 (51%) to \$443,000 and \$1.2 million for the three and nine months ended September 30, 2006, respectively, as compared to \$415,000 and \$795,000 for the three months and period ended September 30, 2005, respectively. These expenses include expense reimbursements to our Manager, rating agency expenses and all other operating costs incurred. These increases were primarily the result of the addition of rating agency fees associated with our four CDOs, two of which closed subsequent to September 30, 2005, as well as to an increase in general operating expenses, primarily from bank fees and printing expenses.

***Income Taxes***

We do not pay federal income tax on income we distribute to our stockholders, subject to our compliance with REIT qualification requirements. However, Resource TRS, our domestic TRS, is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code. As of September 30, 2006 and 2005, we did not conduct any of our operations through Resource TRS.

Apidos CDO III, one of our foreign TRSs, was formed to complete securitization transactions structured as secured financings. Apidos CDO III is organized as an exempt company incorporated with limited liability under the laws of the Cayman Islands and is generally exempt from federal and state income tax at the corporate level because its activities in the United States is limited to trading in stock and securities for its own account. Therefore, despite its status as a TRS, it generally will not be subject to corporate tax on its earnings and no provision for income taxes is required; however, we generally will be required to include Apidos CDO III's current taxable income in our calculation of REIT taxable income.

***For the Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005***

***Summary***

Our net income for the period from March 8, 2005 to December 31, 2005 was \$10.9 million, or \$0.71 per weighted-average common share-diluted.

## **Table of Contents**

### *Net Interest Income*

Net interest income for the period totaled \$18.3 million. Investment income totaled \$61.4 million and was comprised of \$31.1 million of interest income on our agency ABS-RMBS portfolio, \$13.1 million of interest income on our ABS-RMBS, CMBS and other ABS portfolio, \$11.9 million of interest income on our bank loan portfolio, \$2.8 million of interest income on our commercial real estate loan portfolio, \$628,000 of interest income from our private equity and leasing portfolios and \$1.9 million of income from our temporary investment of offering proceeds in overnight repurchase agreements. Our interest income was offset by \$43.1 million of interest expense, consisting of \$23.3 million on our repurchase agreements, \$12.8 million on our CDO senior notes, \$4.9 million on our warehouse agreements, \$1.1 million on our commercial real estate loan portfolio, \$516,000 related to interest rate swap agreements, \$461,000 of amortization of debt issuance costs related to our two CDO offerings and \$47,000 on our corporate credit facility.

### *Other Gains and Losses*

Net realized gain on investments for the period was \$311,000 and was related to gains on sales of bank loans and other ABS.

### *Non-Investment Expenses*

Non-investment expenses for the period totaled \$7.7 million. Management fees for the period totaled \$3.0 million, of which \$2.7 million was related to base management fees and \$344,000 was related to incentive management fees due to the Manager pursuant to our management agreement. Equity compensation expense-related party totaled \$2.7 million and consisted of amortization related to the March 8, 2005 grant of restricted common stock to the Manager and our independent directors and the grant of options to the Manager to purchase common stock. Professional services totaled \$516,000 and consisted of audit, tax and legal costs. Insurance expense of \$395,000 was the amortization related to our purchase of directors and officers insurance. General and administrative expenses totaled \$1.1 million which includes \$797,000 of expense reimbursements due to the Manager and \$75,000 of rating agency expenses.

### *Income Taxes*

We do not pay federal income tax on income we distribute to our stockholders, subject to our compliance with REIT qualification requirements. However, Resource TRS, our domestic TRS, is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code. As of December 31, 2005, we did not conduct any of our operations through Resource TRS.

Apidos CDO I, one of our foreign TRSs, was formed to complete securitization transactions structured as secured financings. Apidos CDO I is organized as an exempt company incorporated with limited liability under the laws of the Cayman Islands and is generally exempt from federal and state income tax at the corporate level because its activities in the United States is limited to trading in stock and securities for its own account. Therefore, despite its status as a TRS, it generally will not be subject to corporate tax on its earnings and no provision for income taxes is required; however, we generally will be required to include Apidos CDO I's current taxable income in our calculation of REIT taxable income.

## **Financial Condition**

### *Summary*

Our total assets at September 30, 2006 were \$2.4 billion as compared to \$2.0 billion at December 31, 2005. The increase in total assets principally was due to a \$213.3 million increase in our bank loans held by Apidos CDO III, which closed in May 2006, a \$312.6 million increase in our commercial real estate loan portfolio resulting from the purchase of 20 additional loans, 13 of which are held by Resource Real Estate Funding CDO 2006-1, which closed in August 2006, four additional fundings on one existing loan position, which is also being

**Table of Contents**

held by Resource Real Estate Funding CDO 2006-1, and a \$52.3 million increase (net of sales of \$16.3 million) in equipment leases and notes in connection with six additional purchases of leasing and note assets from LEAF Financial Corporation during the nine months ended September 30, 2006. This increase was partially offset by the sale of approximately \$125.4 million of agency ABS-RMBS in January 2006 coupled with principal repayments during the nine months ended September 30, 2006 of \$113.4 million on this portfolio. As a result of the sale, we reduced the associated debt with this portfolio. Our liquidity at September 30, 2006 was strengthened by the completion of our initial public offering in February 2006 which resulted in net proceeds of \$27.3 million after deducting underwriters' discounts and commissions and offering expenses and the completion of our May and September 2006 trust preferred securities issuances which resulted in net proceeds of \$48.4 million after deducting issuance costs. As of September 30, 2006, we had \$13.5 million of cash and cash equivalents.

*Investment Portfolio*

The tables below summarize the amortized cost and estimated fair value of our investment portfolio as of September 30, 2006 and as of December 31, 2005, classified by interest rate type. The table below for September 30, 2006 excludes the agency ABS-RMBS portfolio that we agreed to sell in September 2006 and settled in October 2006 (see discussion in *Overview* section). The tables below include both (i) the amortized cost of our investment portfolio and the related dollar price, which is computed by dividing amortized cost by par amount, and (ii) the estimated fair value of our investment portfolio and the related dollar price, which is computed by dividing the estimated fair value by par amount (in thousands, except percentages):

September 30, 2006	Amortized cost	Dollar price	Estimated fair value	Dollar price	Estimated fair value less amortized cost	Dollar price
<b>Floating rate:</b>						
ABS-RMBS	\$ 340,988	99.19%	\$ 341,225	99.26%	\$ 237	0.07%
CMBS	415	100.00%	420	101.20%	5	1.20%
Other ABS	18,317	98.95%	18,419	99.50%	102	0.55%
Whole loans	75,821	99.19%	75,821	99.19%		0.00%
A notes	42,517	100.04%	42,517	100.04%		0.00%
B notes	120,251	99.98%	120,251	99.98%		0.00%
Mezzanine loans	78,631	99.97%	78,631	99.97%		0.00%
Bank loans	614,699	100.16%	613,636	99.98%	(1,063)	-0.18%
<b>Total floating rate</b>	<b>\$ 1,291,639</b>	<b>99.80%</b>	<b>\$ 1,290,920</b>	<b>99.74%</b>	<b>\$ (719)</b>	<b>-0.06%</b>
<b>Fixed rate:</b>						
ABS-RMBS	\$ 6,000	100.00%	\$ 5,853	97.55%	\$ (147)	-2.45%
CMBS	27,539	98.73%	26,968	96.68%	(571)	-2.05%
Other ABS	3,135	99.97%	2,999	95.63%	(136)	-4.34%
B notes	41,920	99.81%	41,920	99.81%		0.00%
Mezzanine loans	80,515	93.52%	80,515	93.52%		0.00%
Bank loans	248	99.60%	248	99.60%		0.00%
Equipment leases and notes	91,909	100.00%	91,909	100.00%		0.00%
<b>Total fixed rate</b>	<b>\$ 251,266</b>	<b>97.66%</b>	<b>\$ 250,412</b>	<b>97.33%</b>	<b>\$ (854)</b>	<b>-0.33%</b>
<b>Grand total</b>	<b>\$ 1,542,905</b>	<b>99.44%</b>	<b>\$ 1,541,332</b>	<b>99.34%</b>	<b>\$ (1,573)</b>	<b>-0.10%</b>

**Table of Contents**

December 31, 2005	Amortized cost	Dollar price	Estimated fair value	Dollar price	Estimated fair value less amortized cost	Dollar price
<b>Floating rate:</b>						
ABS-RMBS	\$ 340,460	99.12%	\$ 331,974	96.65%	\$ (8,486)	-2.47%
CMBS	458	100.00%	459	100.22%	1	0.22%
Other ABS	18,731	99.88%	18,742	99.94%	11	0.06%
B notes	121,671	99.78%	121,671	99.78%		0.00%
Mezzanine loans	44,405	99.79%	44,405	99.79%		0.00%
Bank loans	398,536	100.23%	399,979	100.59%	1,443	0.36%
Private equity	1,984	99.20%	1,954	97.70%	(30)	-1.50%
<b>Total floating rate</b>	<b>\$ 926,245</b>	<b>99.77%</b>	<b>\$ 919,184</b>	<b>98.97%</b>	<b>\$ (7,061)</b>	<b>-0.76%</b>
<b>Hybrid rate:</b>						
Agency ABS-RMBS	\$ 1,014,575	100.06%	\$ 1,001,670	98.79%	\$ (12,905)	-1.27%
<b>Total hybrid rate</b>	<b>\$ 1,014,575</b>	<b>100.06%</b>	<b>\$ 1,001,670</b>	<b>98.79%</b>	<b>\$ (12,905)</b>	<b>-1.27%</b>
<b>Fixed rate:</b>						
ABS-RMBS	\$ 6,000	100.00%	\$ 5,771	96.18%	\$ (229)	-3.82%
CMBS	27,512	98.63%	26,904	96.45%	(608)	-2.18%
Other ABS	3,314	99.97%	3,203	96.62%	(111)	-3.35%
Mezzanine loans	5,012	100.00%	5,012	100.00%		0.00%
Bank loans	249	99.60%	246	98.40%	(3)	-1.20%
Equipment leases and notes	23,317	100.00%	23,317	100.00%		0.00%
<b>Total fixed rate</b>	<b>\$ 65,404</b>	<b>99.42%</b>	<b>\$ 64,453</b>	<b>97.97%</b>	<b>\$ (951)</b>	<b>-1.45%</b>
<b>Grand total</b>	<b>\$ 2,006,224</b>	<b>99.90%</b>	<b>\$ 1,985,307</b>	<b>98.86%</b>	<b>\$ (20,917)</b>	<b>-1.04%</b>

At September 30, 2006, we held \$347.1 million of ABS-RMBS, at fair value, which is based on market prices provided by dealers, net of unrealized gains of \$1.8 million and unrealized losses of \$1.7 million as compared to \$337.7 million at December 31, 2005, net of unrealized gains of \$370,000 and unrealized losses of \$9.1 million. At September 30, 2006 and December 31, 2005, our ABS-RMBS portfolio had a weighted average amortized cost of 99.21% and 99.13%, respectively. As of September 30, 2006 and December 31, 2005, our ABS-RMBS were valued below par, in the aggregate, because of wide credit spreads during the respective periods.

The following table summarize our ABS-RMBS portfolio classified as available-for-sale as of September 30, 2006 and December 31, 2005 which are carried at fair value (in thousands, except percentages):

	September 30, 2006		December 31, 2005		Total
	ABS-RMBS	Agency ABS-RMBS	ABS-RMBS	ABS-RMBS	
ABS-RMBS, gross	\$ 349,761	\$ 1,013,981	\$ 349,484	\$ 1,363,465	
Unamortized discount	(2,915)	(777)	(3,188)	(3,965)	
Unamortized premium	142	1,371	164	1,535	
Amortized cost	346,988	1,014,575	346,460	1,361,035	
Gross unrealized gains	1,813	13	370	383	
Gross unrealized losses	(1,733)	(12,918)	(9,085)	(22,003)	
Estimated fair value	\$ 347,068	\$ 1,001,670	\$ 337,745	\$ 1,339,415	
Percent of total	100.0%	74.8%	25.2%	100.0%	





**Table of Contents**

The table below summarizes our ABS-RMBS portfolio as of September 30, 2006 and December 31, 2005 (dollars in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	September 30, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Aaa	\$	N/A	\$ 1,014,575	100.06%
A1 through A3	42,273	100.20%	42,172	100.23%
Baa1 through Baa3	279,022	99.86%	281,929	99.85%
Ba1 through Ba3	25,693	91.22%	22,359	89.20%
Total	\$ 346,988	99.21%	\$ 1,361,035	99.82%
<b>S&amp;P ratings category:</b>				
AAA	\$	N/A	\$ 1,014,575	100.06%
AA+ through AA-		%	2,000	100.00%
A+ through A-	58,963	99.62%	59,699	99.55%
BBB+ through BBB-	264,844	99.12%	262,524	98.99%
BB+ through BB-	2,181	92.22%	1,199	94.78%
No rating provided	21,000	100.00%	21,038	100.00%
Total	\$ 346,988	99.21%	\$ 1,361,035	99.82%
Weighted average rating factor	410		104	
Weighted average original FICO <sup>(1)</sup>	636		633	
Weighted average original LTV <sup>(1)</sup>	79.92%		80.02%	

(1) Weighted average reflects 100.0% and 25.2% at September 30, 2006 and December 31, 2005, respectively, of the ABS-RMBS in our portfolio that are not agency ABS-RMBS.

The constant prepayment rate to balloon, or CPB, on our ABS-RMBS at September 30, 2006 and December 31, 2005 was 15%. CPB attempts to predict the percentage of principal that will repay over the next 12 months based on historical principal paydowns. As interest rates rise, the rate of refinancing typically declines, which we believe may result in lower rates of prepayments and, as a result, a lower portfolio CPB.

*Commercial Mortgage-Backed Securities*

At September 30, 2006 and December 31, 2005, we held \$27.4 million of CMBS at fair value, which is based on market prices provided by dealers, net of unrealized gains of \$5,000 and \$1,000, respectively, and unrealized losses of \$570,000 and \$608,000, respectively. In the aggregate, we purchased our CMBS portfolio at a discount. As of September 30, 2006 and December 31, 2005, the remaining discount to be accreted into income over the remaining lives of the securities was \$354,000 and \$380,000, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair market value.

**Table of Contents**

The table below summarizes our CMBS as of September 30, 2006 and December 31, 2005 (dollars in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	September 30, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Baa1 through Baa3	\$ 27,954	98.75%	\$ 27,970	98.66%
<b>Total</b>	<b>\$ 27,954</b>	<b>98.75%</b>	<b>\$ 27,970</b>	<b>98.66%</b>
<b>S&amp;P ratings category:</b>				
BBB+ through BBB-	\$ 12,193	99.07%	\$ 12,225	98.98%
No rating provided	15,761	98.51%	15,745	98.41%
<b>Total</b>	<b>\$ 27,954</b>	<b>98.75%</b>	<b>\$ 27,970</b>	<b>98.66%</b>
Weighted average rating factor <i>Other Asset-Backed Securities</i>	346		346	

At September 30, 2006 and December 31, 2005, we held \$21.4 million and \$21.9 million, respectively, of other ABS at fair value, which is based on market prices provided by dealers, net of unrealized gains of \$113,000 and \$24,000, respectively, and unrealized losses of \$137,000 and \$124,000, respectively. In the aggregate, we purchased our other ABS portfolio at a discount. As of September 30, 2006 and December 31, 2005, the remaining discount to be accreted into income over the remaining lives of securities was \$195,000 and \$25,000, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair market value.

The table below summarizes our other ABS as of September 30, 2006 and December 31, 2005 (dollars in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	September 30, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Baa1 through Baa3	\$ 20,674	99.89%	\$ 22,045	99.89%
Ba1 through Ba3	778	81.89%		99.89%
<b>Total</b>	<b>\$ 21,452</b>	<b>99.10%</b>	<b>\$ 22,045</b>	<b>99.89%</b>
<b>S&amp;P ratings category:</b>				
BBB+ through BBB-	\$ 19,691	99.02%	\$ 19,091	99.87%
No rating provided	1,761	100.00%	2,954	100.00%
<b>Total</b>	<b>\$ 21,452</b>	<b>99.10%</b>	<b>\$ 22,045</b>	<b>99.89%</b>
Weighted average rating factor	407		398	

**Table of Contents***Commercial Real Estate Loans*

The following summarizes the loans in our commercial real estate loan portfolio at the dates indicated (in thousands):

Description	Quantity	Amortized cost	Interest rates	Maturity dates
<b>September 30, 2006:</b>				
Whole loans, floating rate	4	\$ 75,821	LIBOR plus 2.50% to LIBOR plus 3.60%	August 2007 to September 2008
A notes, floating rate	2	42,517	LIBOR plus 1.25% to LIBOR plus 1.35%	January 2008 to April 2008
B notes, floating rate	8	120,251	LIBOR plus 1.90% to LIBOR plus 6.25%	January 2007 to April 2008
B notes, fixed rate	2	41,920	7.18% to 8.68%	April 2016 to July 2016
Mezzanine loans, floating rate	6	75,476	LIBOR plus 2.25% to LIBOR plus 4.50%	August 2007 to July 2008
Mezzanine loan, floating rate	1	6,523	10 year Treasury rate plus 6.64%	January 2016
Mezzanine loans, fixed rate	7	77,147	5.78% to 9.50%	October 2009 to September 2016
<b>Total</b>	<b>30</b>	<b>\$ 439,655</b>		
<b>December 31, 2005:</b>				
B notes, floating rate	7	\$ 121,671	LIBOR plus 2.15% to LIBOR plus 6.25%	January 2007 to April 2008
Mezzanine loans, floating rate	4	44,405	LIBOR plus 2.25% to LIBOR plus 4.50%	August 2007 to July 2008
Mezzanine loan, fixed rate	1	5,012	9.50%	May 2010
<b>Total</b>	<b>12</b>	<b>\$ 171,088</b>		

*Bank Loans*

At September 30, 2006, we held a total of \$613.9 million of bank loans at fair value, all of which are held by and secure the debt issued by Apidos CDO I and Apidos CDO III. At December 31, 2005, we held a total of \$400.2 million of bank loans at fair value, of which \$63.0 million were financed and held on our Apidos CDO III warehouse facility. This facility was subsequently terminated in May 2006 upon the closing of Apidos CDO III. The increase in total bank loans was principally due to the Apidos CDO III funding. We own 100% of the equity issued by Apidos CDO I and Apidos CDO III, which we have determined are variable interest entities, or VIEs, and are therefore deemed to be their primary beneficiaries. See Variable Interest Entities. As a result, we consolidated Apidos CDO I and Apidos CDO III as of September 30, 2006 and December 31, 2005, even though we did not own any of the equity of Apidos CDO III as of December 31, 2005.



**Table of Contents**

The table below summarizes our bank loan investments as of September 30, 2006 and December 31, 2005 (dollars in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	September 30, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Ba1 through Ba3	\$ 195,373	100.09%	\$ 155,292	100.24%
B1 through B3	408,101	100.20%	243,493	100.23%
Caa1 and through Caa3	11,473	100.01%		%
<b>Total</b>	<b>\$ 614,947</b>	<b>100.16%</b>	<b>\$ 398,785</b>	<b>100.23%</b>
<b>S&amp;P ratings category:</b>				
BBB+ through BBB-	\$ 9,495	100.00%	\$ 15,347	100.20%
BB+ through BB-	219,801	100.13%	131,607	100.22%
B+ through B-	361,376	100.18%	246,335	100.24%
CCC+ through CCC-	15,956	100.11%	5,496	100.37%
No rating provided	8,319	100.00%		%
<b>Total</b>	<b>\$ 614,947</b>	<b>100.16%</b>	<b>\$ 398,785</b>	<b>100.23%</b>
<b>Weighted average rating factor</b>	<b>2,143</b>		<b>2,089</b>	

*Equipment Leases and Notes*

Investments in direct financing leases and notes as of September 30, 2006 and December 31, 2005 were as follows (in thousands):

	September 30, 2006	December 31, 2005
Direct financing leases	\$ 33,197	\$ 18,141
Notes receivable	58,712	5,176
<b>Total</b>	<b>\$ 91,909</b>	<b>\$ 23,317</b>

*Private Equity Investments*

In February 2006, we sold our private equity investment for \$2.0 million. We intend to invest in trust preferred securities and private equity investments with an emphasis on securities of small- to middle-market financial institutions, including banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITS. Trust preferred securities are issued by a special purpose trust that holds a subordinated debenture or other debt obligation issued by a company to the trust.

*Interest Receivable*

At September 30, 2006, we had interest receivable of \$11.4 million, which consisted of \$11.2 million of interest on our securities, loans and equipment leases and notes, \$105,000 of purchased interest that had been accrued on bank and commercial real estate loans purchased and \$67,000 of interest earned on brokerage and sweep accounts. At December 31, 2005, we had interest receivable of \$9.3 million, which consisted of \$9.1 million of interest on our securities, loans and equipment leases and notes, \$172,000 of purchased interest that had been accrued when our securities and loans were purchased and \$95,000 of interest earned on escrow and sweep accounts.

*Principal Paydown Receivables*

At September 30, 2006, we had principal paydown receivables of \$14.7 million, which consisted of \$14.5 million of principal payments on our agency ABS-RMBS portfolio and \$187,000 of principal payments on our bank loans.



## **Table of Contents**

At December 31, 2005, we had principal paydown receivables of \$5.8 million, all of which related to principal payments on our agency ABS-RMBS portfolio.

### *Other Assets*

Other assets at September 30, 2006 of \$3.1 million consisted primarily of \$2.8 million of loan origination costs associated with our trust preferred securities issuance, revolving credit facility, commercial real estate loan portfolio and secured term facility and \$219,000 of prepaid directors and officers liability insurance.

Other assets at December 31, 2005 of \$1.5 million consisted primarily of \$1.2 million of prepaid costs, principally professional fees, associated with the preparation and filing with the SEC of a registration statement for our initial public offering and \$193,000 of loan origination costs associated with our revolving credit facility, commercial real estate loan portfolio and secured term facility.

### *Hedging Instruments*

As of September 30, 2006 and December 31, 2005, we had entered into hedges with a notional amount of \$227.3 million and \$987.2 million, respectively. Our hedges at September 30, 2006 and December 31, 2005 were fixed-for-floating interest rate swap agreements whereby we swapped the floating rate of interest on the liabilities we hedged for a fixed rate of interest. The maturities of these hedges range from November 2009 to February 2017 and April 2006 to June 2014, as of September 30, 2006 and December 31, 2005, respectively. At September 30, 2006 the unrealized loss on our interest rate swap agreements and interest rate cap agreement was \$3.4 million. At December 31, 2005, the unrealized gain on our interest rate swap agreements and interest rate cap agreement was \$2.8 million. In an increasing interest rate environment, we expect that the fair value of our hedges will continue to increase. We intend to continue to seek such hedges for our floating rate debt in the future.

### *Repurchase Agreements*

We have entered into repurchase agreements to finance our agency ABS-RMBS and commercial real estate loans. These agreements are secured by the financed assets and bear interest rates that have historically moved in close relationship to LIBOR. At September 30, 2006, we had established ten borrowing arrangements with various financial institutions and had utilized four of these arrangements, principally our arrangement with Credit Suisse Securities (USA) LLC, one of our underwriters. None of the counterparties to these agreements are affiliates of the Manager or us.

We seek to renew the repurchase agreements we use to finance asset acquisition as they mature under the then-applicable borrowing terms of the counterparties to our repurchase agreements. Through September 30, 2006, we have encountered no difficulties in effecting renewals of our repurchase agreements.

In August 2006, our subsidiary, RCC Real Estate SPE 2, LLC, entered into a master repurchase agreement with Column Financial, Inc., a subsidiary of Credit Suisse Securities (USA) LLC, to finance the purchase of commercial real estate loans. The maximum amount of our borrowing under the repurchase agreement is \$300.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. We guarantee RCC Real Estate SPE 2, LLC's obligations under the repurchase agreement to a maximum of \$300.0 million. At September 30, 2006, we had borrowed \$43.0 million, all of which was guaranteed, with a weighted average interest rate of LIBOR plus 1.17%, which was 6.50% at September 30, 2006.

In December 2005, our subsidiary, RCC Real Estate SPE, LLC, entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch to finance the purchase of commercial real estate loans. The maximum amount of our borrowing under the repurchase agreement is \$300.0 million. Each repurchase

---

**Table of Contents**

transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. We had guaranteed RCC Real Estate SPE's obligations under the repurchase agreement to a maximum of \$30.0 million, which may be reduced based upon the amount of equity we have in the commercial real estate loans held on this facility. At September 30, 2006, we had no outstanding borrowings as a result of the closing of Resource Real Estate Funding CDO 2006-1 in August 2006, and our use of the proceeds generated thereby to repay the outstanding borrowings. At December 31, 2005, we had \$38.6 million of outstanding borrowings, all of which matured in less than 30 days. We had no risk under this guarantee at September 30, 2006 and our maximum risk under this guaranty was \$30.0 million at December 31, 2005. The weighted average borrowing rate was 5.68% at December 31, 2005. At December 31, 2005, the repurchase agreement was secured by commercial real estate loans with an estimated fair value of \$55.0 million and had a weighted average maturity of 18 days. The net amount of risk was \$16.7 million at December 31, 2005.

In August 2005, our subsidiary, RCC Real Estate, entered into a master repurchase agreement with Bear, Stearns International Limited, or Bear Stearns, to finance the purchase of commercial real estate loans. The maximum amount of borrowing under the repurchase agreement is \$150.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. We guarantee RCC Real Estate's obligations under the repurchase agreement to a maximum of \$150.0 million. At September 30, 2006, we had outstanding \$10.9 million of repurchase agreements, all of which was guaranteed, which was substantially lower than the outstanding balance at December 31, 2005 of \$80.8 million, all of which matured in less than 30 days. This decrease resulted from the closing of Resource Real Estate Funding CDO 2006-1 in August 2006, and our use of the proceeds generated thereby to repay the outstanding borrowings. The outstanding balance as of September 30, 2006 represented one loan. The weighted average current borrowing rates were 6.83% and 5.51% at September 30, 2006 and December 31, 2005, respectively. At September 30, 2006 and December 31, 2005, the repurchase agreements were secured by commercial real estate loans with an estimated fair value of \$16.7 million and \$116.3 million, respectively, and had weighted average maturities of 16 and 17 days, respectively. The net amount of risk was \$5.9 million and \$36.0 million at September 30, 2006 and December 31, 2005, respectively.

RCC Real Estate has received a waiver from Bear Stearns with respect to compliance with a financial covenant in the master repurchase agreement between us and Bear Stearns. The waiver was required due to our net loss during the three months ended September 30, 2006, which was caused by the loss realized by us on the sale of the remainder of our portfolio of agency ABS-RMBS. Under the covenant, we are required to have no less than \$1.00 of net income in any period of four consecutive calendar months. The waiver is effective through January 31, 2007. We expect to be in compliance by the end of the waiver period.

At September 30, 2006, we have complied, to the best of our knowledge, with all of our other financial covenants under our debt agreements.

At September 30, 2006, we had outstanding \$577.2 million of repurchase agreements secured by our agency ABS-RMBS with Credit Suisse Securities (USA) LLC, all of which was subsequently repaid in connection with the sale of our agency ABS-RMBS portfolio. The September 30, 2006 outstanding balance was substantially lower than our December 31, 2005 outstanding balance of \$947.1 million, all of which matured in less than 30 days. This decrease resulted primarily from two events that occurred during the nine months ended September 30, 2006:

the sale of approximately \$125.4 million of our agency ABS-RMBS portfolio and the corresponding reduction in debt associated with this sale; and

the completion of the transition of our financing on 19 agency ABS-RMBS transactions, originally purchased and financed with Credit Suisse Securities (USA) LLC, to another counterparty, UBS Securities LLC. This transition eliminates our exposure to same party transactions at September 30, 2006, as covered under Statement of Financial Accounting Standards No. 140.



**Table of Contents**

The weighted average current borrowing rates of repurchase agreements under the Credit Suisse Securities (USA) LLC facility were 5.38% and 4.34% at September 30, 2006 and December 31, 2005, respectively. The repurchase agreements were secured by agency ABS-RMBS with an estimated fair value of \$602.6 million and \$975.3 million at September 30, 2006 and December 31, 2005, respectively, with weighted average maturities of two days and 17 days, respectively. The net amount at risk, defined as the sum of the fair value of securities sold plus accrued interest income minus the sum of repurchase agreement liabilities plus accrued interest expense, was \$25.4 million and \$31.2 million at September 30, 2006 and December 31, 2005, respectively.

At September 30, 2006, we had outstanding \$139.1 million of repurchase agreements secured by our agency ABS-RMBS with UBS Securities LLC, all of which was repaid in connection with the subsequent sale of our agency ABS-RMBS portfolio, with a weighted average current borrowing rate of 5.31%, all of which matured in less than 30 days. At September 30, 2006, the repurchase agreements were secured by agency ABS-RMBS with an estimated fair value of \$144.0 million and a weighted average maturity of two days. The net amount at risk was \$5.0 million at September 30, 2006. At December 31, 2005, we had no borrowings under repurchase agreements with UBS Securities LLC.

*Collateralized Debt Obligations*

As of September 30, 2006, we had executed four CDO transactions. In July 2005, we closed Ischus CDO II, a \$403.0 million CDO transaction that provided financing for mortgage-backed and other asset-backed securities. The investments held by Ischus CDO II collateralize \$376.0 million of senior notes issued by the CDO vehicle. In August 2005, we closed Apidos CDO I, a \$350.0 million CDO transaction that provided financing for bank loans. The investments held by Apidos CDO I collateralize \$321.5 million of senior notes issued by the CDO vehicle. In May 2006, we closed Apidos CDO III, a \$285.5 million CDO transaction that provided financing for bank loans. The investment held by Apidos CDO III collateralized \$262.5 million of senior notes issued by the CDO vehicle. In August 2006, we closed Resource Real Estate Funding CDO 2006-1, a \$345.0 million CDO transaction that provided financing for commercial real estate loans. The investment held by Resource Real Estate Funding CDO 2006-1 collateralized \$308.7 million of senior notes issued by the CDO vehicle.

*Warehouse Facility*

In May 2005, we formed Apidos CDO III and began borrowing on a warehouse facility provided by Citigroup Financial Products, Inc. to purchase bank loans. At December 31, 2005, \$63.0 million was outstanding under the facility. On May 9, 2006, we terminated our Apidos CDO III warehouse agreement with Citigroup Global Markets Inc. and the warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO III.

*Trust Preferred Securities*

In May and September 2006, we formed Resource Capital Trust I and RCC Trust II, respectively, for the sole purpose of issuing and selling trust preferred securities. In accordance with Financial Accounting Standards Board, or FASB, Interpretation No. 46-R, or FIN 46-R, Resource Capital Trust I and RCC Trust II are not consolidated into our consolidated financial statements because we are not deemed to be the primary beneficiary of either trust. We own 100% of the common shares of each trust, each of which issued \$25.0 million of preferred shares to unaffiliated investors. Our rights as the holder of the common shares of each trust are subordinate to the rights of the holders of preferred shares only in the event of a default; otherwise, our economic and voting rights are pari passu with the preferred shareholders. We record each of our investments in the trusts' common shares of \$774,000 as an investment in unconsolidated trusts and record dividend income upon declaration by each trust.

In connection with the issuance and sale of the trust preferred securities, we issued \$25.8 million principal amount of junior subordinated debentures to both Resource Capital Trust I and RCC Trust II. The junior

## **Table of Contents**

subordinated debentures debt issuance costs are deferred in other assets in the consolidated balance sheets. We record interest expense on the junior subordinated debentures and amortization of debt issuance costs in our consolidated statements of operations.

### *Term Facility*

In March 2006, we entered into a secured term credit facility with Bayerische Hypo und Vereinsbank AG, New York Branch to finance the purchase of equipment leases and notes. The maximum amount of our borrowing under this facility is \$100.0 million. At September 30, 2006, \$87.1 million was outstanding under the facility. The facility bears interest at one of two rates, determined by asset class.

Pool A one-month LIBOR plus 1.10%; or

Pool B one-month LIBOR plus 0.80%.

The weighted average interest rate was 6.34% at September 30, 2006.

### *Credit Facility*

In December 2005, we entered into a \$15.0 million corporate credit facility with Commerce Bank, N.A. This facility was increased to \$25.0 million in April 2006. The unsecured revolving credit facility permits us to borrow up to the lesser of the facility amount and the sum of 80% of the sum of our unsecured assets rated higher than Baa3 or better by Moody's and BBB- or better by Standard and Poor's plus our interest receivables plus 65% of our unsecured assets rated lower than Baa3 by Moody's and BBB- from Standard and Poor's. Up to 20% of the borrowings under the facility may be in the form of standby letters of credit. At September 30, 2006, no balance was outstanding under this facility.

### **Stockholders' Equity**

Stockholders' equity at September 30, 2006 was \$230.0 million and included \$510,000 of net unrealized losses on our ABS-RMBS, CMBS and other ABS portfolio and \$3.4 million of unrealized losses on cash flow hedges, shown as a component of accumulated other comprehensive loss. Stockholders' equity at December 31, 2005 was \$195.3 million and included \$22.4 million of net unrealized losses on securities classified as available-for-sale, offset by \$2.8 million of unrealized gains on cash flow hedges, shown as a component of accumulated other comprehensive loss. The unrealized losses consist of \$12.9 million of net unrealized losses on our agency ABS-RMBS portfolio, \$9.4 million of net unrealized losses on our ABS-RMBS, CMBS, and other ABS portfolio and a \$30,000 unrealized loss on a private equity investment. The increase during the nine months ended September 30, 2006 was principally due to the completion of our initial public offering of 4,000,000 shares of our common stock (including 1,879,200 shares sold by certain selling stockholders) at a price of \$15.00 per share. The offering generated net proceeds of \$27.3 million after deducting underwriters' discounts and commissions and offering expenses.

As a result of our available-for-sale accounting treatment, unrealized fluctuations in market values of assets do not impact our income determined in accordance with GAAP, or our taxable income, but rather are reflected on our consolidated balance sheets by changing the carrying value of the asset and stockholders' equity under Accumulated Other Comprehensive Income (Loss). By accounting for our assets in this manner, we hope to provide useful information to stockholders and creditors and to preserve flexibility to sell assets in the future without having to change accounting methods.

**Table of Contents****Estimated REIT Taxable Income**

We calculate estimated REIT taxable income, which is a non-GAAP financial measure, according to the requirements of the Internal Revenue Code. The following table reconciles net income to estimated REIT taxable income for the periods presented (in thousands):

	Three months ended September 30,		Nine months ended September 30,	Period ended September 30,
	2006	2005	2006	2005
Net (loss) income	\$ (2,401)	\$ 3,776	\$ 8,814	\$ 6,008
Additions:				
Share-based compensation to related parties	798	836	1,620	1,873
Incentive management fee expense to related party paid in shares			108	
Capital losses from the sale of available- for-sale securities	10,875		12,286	
Accrued and/or prepaid expenses			89	
Net book to tax adjustment for the inclusion of our taxable foreign REIT subsidiaries	(1)	20	764	20
Amortization of deferred debt issuance costs on CDO financings	(48)	(40)	(140)	(40)
Estimated REIT taxable income	\$ 9,223	\$ 4,592	\$ 23,541	\$ 7,861

We believe that a presentation of estimated REIT taxable income provides useful information to investors regarding our financial condition and results of operations as this measurement is used to determine the amount of dividends that we are required to declare to our stockholders in order to maintain our status as a REIT for federal income tax purposes. Since we, as a REIT, expect to make distributions based on taxable earnings, we expect that our distributions may at times be more or less than our reported earnings. Total taxable income is the aggregate amount of taxable income generated by us and by our domestic and foreign taxable REIT subsidiaries. Estimated REIT taxable income excludes the undistributed taxable income of our domestic taxable REIT subsidiary, if any such income exists, which is not included in REIT taxable income until distributed to us. There is no requirement that our domestic taxable REIT subsidiary distribute its earnings to us. Estimated REIT taxable income, however, includes the taxable income of our foreign taxable REIT subsidiaries because we will generally be required to recognize and report their taxable income on a current basis. We use estimated REIT taxable income for this purpose. Because not all companies use identical calculations, this presentation of estimated REIT taxable income may not be comparable to other similarly-titled measures of other companies.

**Liquidity and Capital Resources**

Through September 30, 2006, our principal sources of funds were the net proceeds from our March 2005 private placement, net proceeds from our February 2006 public offering, net proceeds from our May 2006 and September 2006 trust preferred securities issuances totaling \$48.4 million, repurchase agreements totaling \$770.2 million, CDO financings totaling \$1.2 billion and an equipment leasing secured term facility totaling \$87.1 million. We expect to continue to borrow funds in the form of repurchase agreements to finance our commercial real estate loan portfolio, through warehouse agreements to finance our ABS-RMBS, CMBS, other ABS, bank loans, trust preferred securities and private equity investments and through our secured term facility to finance our equipment leases and notes prior to the execution of CDOs and other term financing vehicles.

Our liquidity needs consist principally of funds to make investments, make distributions to our stockholders and pay our operating expenses, including our management fees. Our ability to meet our liquidity needs will be subject to our ability to generate cash from operations and, with respect to our investments, our ability to obtain

**Table of Contents**

additional debt financing and equity capital. Through September 30, 2006, we have not experienced difficulty in obtaining debt financing. We may increase our capital resources through offerings of equity securities (possibly including common stock and one or more classes of preferred stock), CDOs, trust preferred securities issuances or other forms of term financing. Such financing will depend on market conditions. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, we may be unable to implement our investment strategies successfully and may be required to liquidate portfolio investments. If required, a sale of portfolio investments could be at prices lower than the carrying value of such assets, which would result in losses and reduced income.

We held cash and cash equivalents of \$13.5 million at September 30, 2006. In addition, we held \$21.7 million of agency ABS-RMBS that had not been pledged as collateral under our repurchase agreements at September 30, 2006. We entered into an agreement to sell these securities on September 27, 2006, and the sale settled on October 2, 2006.

In August 2006, our subsidiary, RCC Real Estate SPE 2, LLC, entered into a master repurchase agreement with Column Financial, Inc., a subsidiary of Credit Suisse Securities (USA) LLC, one of our underwriters, to finance the purchase of commercial real estate loans. At September 30, 2006, we had borrowed \$43.0 million. The agreement provides as follows:

Column Financial will purchase assets from us and will transfer those assets back to us at a particular date or on demand;

the maximum amount of repurchase transactions is \$300.0 million;

each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term;

we guaranteed RCC Real Estate SPE 2, LLC's obligations under the repurchase agreement to a maximum of \$300.0 million;

we must cover margin deficits by depositing cash or other assets acceptable to Column Financial in its discretion.

It is an event of default under the agreement if:

we fail to repurchase securities, we fail to pay any price differential or we fail to make any other payment after we reach an agreement with respect to a particular transaction;

we fail to transfer purchased assets to Column Financial by a particular date;

we fail to comply with the margin and margin repayment requirements;

RCC Real Estate SPE 2, LLC or any of its affiliates are in default under any form of indebtedness in an amount which exceeds \$1.0 million (\$5.0 million in the case of our default);

we assign the facility without obtaining the written consent of Column Financial;

## Edgar Filing: Resource Capital Corp. - Form S-11/A

an act of insolvency has occurred;

a material adverse change in our operations, business or financial condition has occurred;

a material impairment of the ability to avoid an event of default has occurred;

we breach any material representation, warranty or covenant set forth in the agreement;

a change of control has occurred;

a final judgment is rendered against us in an amount greater than \$5.0 million (\$1.0 million in the case of RCC Real Estate SPE 2, LLC) and remains unpaid for a period of 30 days;

any governmental or regulatory authority takes action materially adverse to our business operations;

we admit our inability to, or our intention not to, perform under the agreement;

**Table of Contents**

the agreement fails to create a first priority security interest in the purchased assets;

a going concern or similar qualification is stated in our audited annual financial statements; and

we fail to qualify as a REIT.

Upon an event of default, Column Financial may accelerate the repurchase date for the transaction and all income paid will belong to it. It may also sell the securities or give us credit for the value of the securities on the date of default, and we would remain liable for any deficit. We will also be liable to for all costs, expenses and damages, including the costs of entering into or terminating hedge transactions, of Column Financial, plus interest.

The agreement also provides that we will:

maintain tangible net worth greater than or equal to \$125.0 million; and

maintain a ratio of consolidated indebtedness to consolidated tangible net worth not to exceed 11:1.

Through our subsidiary, RCC Real Estate, Inc., we have also entered into a master repurchase agreement with Bear, Stearns International Limited to finance our commercial real estate loan portfolio. As of September 30, 2006, we had \$10.9 million outstanding under this agreement. The agreement provides as follows:

Bear, Stearns International Limited, in its sole discretion, will purchase assets from us, and will transfer those assets back to us at a particular date or on demand;

the maximum aggregate amount of outstanding repurchase transactions is \$150.0 million;

each repurchase transaction will be entered into by agreement between the parties specifying the terms of the transaction, including identification of the assets subject to the transaction, sale price, repurchase price, rate, term and margin maintenance requirements; and

we have guaranteed RCC Real Estate's obligations under the repurchase agreement to a maximum of \$150.0 million;

if we control the servicing of the purchased assets, we must service the assets for the benefit of Bear, Stearns International Limited. It is an event of default under the agreement if:

Bear, Stearns International Limited is not granted a first priority security interest in the assets;

we fail to repurchase securities, we fail to pay any price differential or we fail to make any other payment after we reach an agreement with respect to a particular transaction;

## Edgar Filing: Resource Capital Corp. - Form S-11/A

any governmental or regulatory authority takes any action materially adverse to our business operations;

Bear, Stearns International Limited determines, in good faith,

that there has been a material adverse change in our corporate structure, financial condition or creditworthiness;

that we will not meet or we have breached any of our obligations; or

that a material adverse change in our financial condition may occur due to pending legal actions;

we have commenced a proceeding, or had a proceeding commenced against us, under any bankruptcy, insolvency, reorganization or similar laws;

we make a general assignment for the benefit of creditors;

we admit in writing our inability to pay our debts as they become due;

**Table of Contents**

we have commenced a proceeding, or had a proceeding commenced against us, under the provisions of the Securities Investor Protection Act of 1970, which we consent to or do not timely contest and which results in the entry of an order for relief, or is not dismissed within 15 days;

a final judgment is rendered against us in an amount greater than \$1.0 million and remains undischarged or unpaid for 90 days;

we have defaulted or failed to perform under any other note, indenture, loan, guaranty, swap agreement or any other contract to which we are a party which results in:

a final judgment involving the failure to pay an obligation in excess of \$1.0 million or

a final judgment permitting the acceleration of the maturity of obligations in excess of \$1.0 million by any other party to or beneficiary of such note, indenture, loan, guaranty, swap agreement or any other contract; or

we breach any representation, covenant or condition, fail to perform, admit inability to perform or state our intention not to perform our obligations under the repurchase agreement or in respect to any repurchase transaction.

Upon an event of default, Bear, Stearns International Limited may accelerate the repurchase date for each transaction. Unless we have tendered the repurchase price for the assets, Bear, Stearns International Limited may sell the assets and apply the proceeds first to its costs and expenses in connection with our breach, including legal fees; second, to the repurchase price of the assets; and third, to any of our other outstanding obligations.

The repurchase agreement also provides that we shall not, without the prior written consent of Bear, Stearns International Limited,

permit our net worth at any time to be less than the sum of 80% of our net worth on the date of the agreement and 75% of the amount received by us in respect of any equity issuance after the date of the agreement;

permit our net worth to decline by more than 15% in any calendar quarter or more than 30% during any trailing consecutive twelve month period;

permit our ratio of total liabilities to net worth to exceed 14:1; or

permit our consolidated net income, determined in accordance with GAAP, to be less than \$1.00 during the period of any four consecutive calendar months.

RCC Real Estate has received a waiver from Bear Stearns with respect to compliance with the consolidated net income financial covenant. The waiver was required due to our net loss during the three months ended September 30, 2006, which was caused by the loss realized by us on the sale of the remainder of our portfolio of agency ABS-RMBS. The waiver is effective through January 31, 2007. We expect to be in compliance by the end of the waiver period.

Through our subsidiary, RCC Real Estate SPE, LLC, we have also entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch, an affiliate of Deutsche Bank Securities, Inc. to finance our commercial real estate loan portfolio. As of September 30, 2006, we had no borrowings outstanding under this agreement. The agreement provides as follows:



## Edgar Filing: Resource Capital Corp. - Form S-11/A

Deutsche Bank will purchase assets from us and will transfer those assets back to us on a particular date;

the maximum aggregate amount of outstanding repurchase transactions is \$300.0 million;

each repurchase transaction will be entered into by written agreement between the parties including identification of the assets subject to the transaction, sale price, repurchase price, rate, term and margin maintenance requirements; and

**Table of Contents**

we must cover margin deficits by depositing cash or additional securities acceptable to Deutsche Bank in its sole discretion.

we guaranteed RCC Real Estate SPE, LLC's obligations under the repurchase agreement to a maximum of \$30.0 million, which may be reduced based upon the amount of equity we have in commercial real estate loans held on this facility.

It is an event of default under the agreement if:

we fail to repurchase or Deutsche Bank fails to transfer assets after we reach an agreement with respect to a particular transaction;

any governmental, regulatory, or self-regulatory authority takes any action which has a material adverse effect on our financial condition or business;

we have commenced a proceeding under any bankruptcy, insolvency, reorganization or similar laws;

we have commenced a proceeding, or had a proceeding commenced against us, under the provisions of the Securities Investor Protection Act of 1970, which we consent to or do not timely contest and results in the entry of an order for relief, or is not dismissed within 60 days;

we make a general assignment for the benefit of creditors;

we admit in writing our inability to pay our debts as they become due;

a final judgment is rendered against us in an amount greater than \$5.0 million and remains unpaid for a period of 60 days;

we have defaulted or failed to perform under any note, indenture, loan agreement, guaranty, swap agreement or any other contract agreement or transaction to which we are a party which results in:

the failure to pay a monetary obligation in excess of \$1 million or

the acceleration of the maturity of obligations in excess of \$1 million by any other party to a note, indenture, loan agreement, guaranty, swap agreement or other contract agreement; or

we breach or fail to perform under the repurchase agreement.

If we default, Deutsche Bank may accelerate the repurchase date for each transaction. Unless we have tendered the repurchase price for the assets, Deutsche Bank may sell the assets and apply the proceeds first to cover its actual out-of-pocket costs and expenses; second to cover its actual out-of-pocket costs to cover hedging transactions; third to the repurchase price of the assets; fourth to pay an exit fee and other of our obligations; and fifth, to return to us any excess.

We may terminate a repurchase transaction without cause upon written notice to Deutsche Bank and the repayment of the repurchase price plus fees.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

We have entered into master repurchase agreements with Credit Suisse Securities (USA) LLC, one of our underwriters, Barclays Capital Inc., J.P. Morgan Securities Inc., one of our underwriters, Countrywide Securities Corporation, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Bear, Stearns International Limited and UBS Securities LLC. As of September 30, 2006, we had \$577.2 million outstanding under our agreement with Credit Suisse Securities (USA) LLC and \$139.1 million outstanding under our agreement with UBS Securities LLC to finance our agency ABS-RMBS portfolio. On October 2, 2006, we repaid all outstanding borrowings under both facilities in connection with the settlement of our agency ABS-RMBS portfolio. Each such agreement is a standard form providing as follows:

The parties may from time to time enter into repurchase transactions. The agreement for a repurchase transaction may be oral or in writing. None of the master repurchase agreements specifies a maximum amount for repurchase transactions with us.

**Table of Contents**

Each repurchase transaction will be entered into by agreement between the parties specifying the terms of the transaction, including identification of the assets subject to the transaction, sale price, repurchase price, rate, term and margin maintenance requirements.

We must cover margin deficits by depositing cash or additional securities reasonably acceptable to our counterparty with it, but have the option to obtain payment from our counterparty of the amount by which the market value of the securities subject to a transaction exceeds the applicable margin amount for the transaction, either in cash or by delivery of securities.

We are entitled to receive all income paid on or with respect to the securities subject to a transaction, provided that the counterparty may apply income received to reduce our repurchase price.

It is an event of default under the agreement if:

we fail to transfer or our counterparty fails to purchase securities after we reach an agreement with respect to a particular transaction;

either party fails to comply with the margin and margin repayment requirements;

the counterparty fails to pay to us or credit us with income from the securities subject to a transaction;

either party commences a proceeding or has a proceeding commenced against it, under any bankruptcy, insolvency or similar laws; or

either party shall admit its inability to, or intention not to, perform any of its obligations under the master repurchase agreement.

Upon an event of default, the non-defaulting party may accelerate the repurchase date for the transaction and all income paid upon the securities will belong to the non-defaulting party. If we are the defaulting party, our counterparty may sell the securities or give us credit for the value of the securities on the date of default, and we would remain liable for any deficit. If our counterparty is the defaulting party, we may purchase replacement securities, or elect to be deemed to have purchased replacement securities, with our counterparty being liable for the cost of the replacement securities or the amount by which the deemed repurchase price exceeds the stated repurchase price. We may also, by tender of the repurchase price, be deemed to have the securities automatically transferred to us. The defaulting party will also be liable to the non-defaulting party for all costs, expenses and damages, including the costs of entering into or terminating hedge transactions, of the non-defaulting party, plus interest at the rate specified in the repurchase agreement.

The master repurchase agreements may be terminated by either party without cause upon written notice, but will remain in effect as to any transactions then outstanding.

Our repurchase agreement with Credit Suisse Securities (USA) LLC also provides that it will terminate if:

our net asset value declines 20% on a monthly basis, 30% on a quarterly basis, 40% on an annual basis, or 50% or more from the highest net asset value since the inception of the repurchase agreement;

we fail to maintain a minimum net asset value of \$100 million;

the Manager ceases to be our manager;

we fail to qualify as a REIT; or

we fail to deliver specified documents, including financial statements or financial information due annually, quarterly or monthly, or an estimate of net asset values.

In December 2005, we entered into a \$15.0 million corporate credit facility with Commerce Bank, N.A. The facility was increased to \$25.0 million in April 2006. At September 30, 2006, no borrowings were outstanding under this facility.

## Table of Contents

In March 2006, Resource Capital Funding, LLC, a special purpose entity whose sole member is RCC Commercial, Inc., our wholly-owned subsidiary, entered into a Receivables Loan and Security Agreement as the borrower among LEAF Financial Corporation as the servicer, Black Forest Funding Corporation as the lender, Bayerische Hypo-Und Vereinsbank AG, New York Branch as the agent, U.S. Bank National Association, as the custodian and the agent's bank, and Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the backup servicer. This agreement is a \$100 million secured term credit facility used to finance the purchase of equipment leases and notes. At September 30, 2006, there was \$87.1 million outstanding under the facility.

LEAF Funding, Inc. originates the equipment leases and notes and sells the equipment leases and notes to RCC Commercial. RCC Commercial then transfers such equipment leases and notes to Resource Capital Funding pursuant to a purchase and contribution agreement. Resource Capital Funding uses the proceeds of the credit facility to purchase the equipment leases and notes from RCC Commercial.

It is an event of default under the agreement if, among other events:

a bankruptcy event occurs involving any of us, RCC Commercial, Resource Capital Funding, the originator or the servicer;

any representation or warranty was false or incorrect;

Resource Capital Funding or the servicer fails to perform any term, covenant or agreement under the agreement or any ancillary agreement in any material respect;

Resource Capital Funding, RCC Commercial or we fail to pay any principal of or premium or interest on any of the debt under the agreement in an amount in excess of \$10.0 million when the same becomes due and payable;

Resource Capital Funding or the servicer suffer any material adverse change to its financial condition;

the lender fails to have a valid, perfected, first priority security interest in the pledged assets except for certain de minimus exceptions;

a change of control of us, RCC Commercial, Resource Capital Funding, the servicer or the originator occurs;

the facility amount (as calculated under the agreement) exceeds certain financial tests set forth in the agreement; or

Resource America's tangible net worth falls below a formula defined in the agreement.

Upon a default, the program will terminate and Resource Capital Funding must cease purchasing receivables from RCC Commercial and the lender may declare all loans made and any yield or fees due thereon to be immediately due and payable.

In October 2006, Resource Capital Funding II, LLC, a special purpose entity whose sole member is RCC Commercial, entered into a Receivables Loan and Security Agreement as the borrower among LEAF Financial Corporation as the servicer, Morgan Stanley Bank as the lender, U.S. Bank National Association, as the custodian and the lender's bank, and Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the backup servicer. This agreement provides a \$100.0 million secured term borrowing facility for the first 12 months and a \$250 million secured term credit facility thereafter to finance the purchase of equipment leases and notes.

LEAF Funding originates the equipment leases and notes and sells the equipment leases and notes to Resource Capital Funding II pursuant to a purchase and sale agreement. Resource Capital Funding II uses the proceeds of the credit facility to purchase the equipment leases and notes

from LEAF Funding.

**Table of Contents**

It is an event of default under the agreement if, among other events:

a bankruptcy event occurs involving any of us, RCC Commercial, Resource Capital Funding II, the originator or the servicer;

any representation or warranty was false or incorrect;

Resource Capital Funding II or the servicer fails to perform any term, covenant or agreement under the agreement or any ancillary agreement in any material respect;

Resource Capital Funding II, RCC Commercial or we fail to pay any principal of or premium or interest on any of the debt under the agreement in an amount in excess of \$10.0 million when the same becomes due and payable;

Resource Capital Funding II or the originator suffers any material adverse change to its business, financial condition or any other condition which in the lender's sole discretion constitutes a material impairment of either entity to perform its obligations under the agreement;

the lender shall fail to have a valid, perfected, first priority security interest in the pledged assets except for certain de minimus exceptions;

Resource Capital Funding II or the servicer shall have suffered any material adverse change to its financial conditions or other operations which would affect the collectibility of the pledged receivables or either party's ability to conduct its business or fulfill its obligations under the agreement or any other ancillary document;

a change of control of us, RCC Commercial, Resource Capital Funding II, the servicer or the originator occurs;

the facility amount (as calculated under the agreement) exceeds certain financial tests set forth in the agreement; or

our tangible net worth falls below \$175.0 million.

Upon a default, the program will terminate and Resource Capital Funding II must cease purchasing receivables from the originator and the lender may declare all loans made and any interest or fees due thereon to be immediately due and payable.

We had a warehouse facility with Citigroup Financial Products, Inc. pursuant to which it would provide up to \$200.0 million of financing for the acquisition of bank loans to be sold to Apidos CDO III. On May 9, 2006, we terminated our Apidos CDO III warehouse agreement with Citigroup Global Markets Inc. and the warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO III.

We anticipate that, upon repayment of each borrowing under a repurchase agreement, we will immediately use the collateral released by the repayment as collateral for borrowing under a new repurchase agreement. We also anticipate that our borrowings under any warehouse credit facility will be refinanced through the issuance of CDOs. Our leverage ratio may vary as a result of the various funding strategies we use. As of September 30, 2006 and December 31, 2005, our leverage ratio was 9.2 times (6.1 times following our October 2006 settlement of our agency ABS-RMBS portfolio) and 9.4 times, respectively. This decrease was primarily due to the proceeds received from our initial public offering in February 2006. Our target leverage ratio is eight to 12 times.



## Edgar Filing: Resource Capital Corp. - Form S-11/A

In order to maintain our qualification as a REIT and to avoid corporate-level income tax on the income we distribute to our stockholders, we intend to make regular quarterly distributions of all or substantially all of our net taxable income to holders of our common stock. This requirement can impact our liquidity and capital resources.

During the quarter ended September 30, 2006, we declared a dividend of \$6.6 million, or \$0.37 per common share, which was paid on October 13, 2006 to stockholders of record as of September 29, 2006.

**Table of Contents****Contractual Obligations and Commitments**

The table below summarizes our contractual obligations as of September 30, 2006. The table below excludes contractual commitments related to our derivatives, which we discuss in Quantitative and Qualitative Disclosures about Market Risk, and the incentive compensation under the management agreement that we have with our Manager, which we discuss in Management Management Agreement, because those contracts do not have fixed and determinable payments.

	Contractual commitments (in thousands)					
	Total	Payments due by period				More than 5 years
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Repurchase agreements <sup>(1)</sup>	\$ 770,167	\$ 770,167	\$	\$	\$	\$
CDOs	1,206,751					1,206,751
Secured term facility	87,080				87,080	
Junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities	51,548					51,548
Base management fees <sup>(2)</sup>	3,698	3,698				
<b>Total</b>	<b>\$ 2,119,244</b>	<b>\$ 773,865</b>	<b>\$</b>	<b>\$</b>	<b>\$ 87,080</b>	<b>\$ 1,258,299</b>

(1) Includes accrued interest of \$1.0 million.

(2) Calculated only for the next 12 months based on our current equity, as defined in our management agreement.

At September 30, 2006, we had 11 interest rate swap contracts and four forward interest rate swap contracts with a notional value of \$227.3 million. These contracts are fixed-for-floating interest rate swap agreements under which we contracted to pay a fixed rate of interest for the term of the hedge and will receive a floating rate of interest. As of September 30, 2006, the average fixed pay rate of our interest rate hedges was 5.34% and our receive rate was one-month and three-month LIBOR, or 5.33%. As of September 30, 2006, the average fixed pay rate of our forward interest rate hedges was 5.31% and our receive rate was one-month LIBOR. All four of our forward interest rate swap contracts will become effective in February 2007.

At September 30, 2006, we also had one interest rate cap with a notional value of \$15.0 million. This cap reduces our exposure to the variability in future cash flows attributable to changes in LIBOR.

**Off-Balance Sheet Arrangements**

As of September 30, 2006, other than Resource Capital Trust I and RCC Trust II as previously discussed in Financial Condition Trust Preferred Securities, we did not maintain any other relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or for contractually narrow or limited purposes. Further, as of September 30, 2006, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide additional funding to any such entities.

**Recent Developments**

On October 2, 2006, in connection with the settlement of our agency ABS-RMBS portfolio, all borrowings were repaid under the Credit Suisse Securities (USA) LLC and UBS Securities LLC agency ABS-RMBS repurchase facilities totaling \$716.5 million. In addition, the net proceeds were used to repay outstanding borrowings under the Column Financial Inc. commercial real estate loan repurchase facility in October 2006.

---

## **Table of Contents**

On October 31, 2006, we entered into a secured term credit facility with Morgan Stanley Bank to finance the purchase of equipment leases and notes. The maximum amount of our borrowing under this facility is \$100.0 million for the first 12 months and \$250.0 million thereafter. The facility expires October 2009.

Borrowings under this facility bear interest at one of two rates, determined by the outstanding balance of the facility:

Less than \$100.0 million one-month LIBOR plus 0.60%; and

Greater than \$100.0 million one-month LIBOR plus 0.75%.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared by management in accordance with GAAP. Note 3 to our financial statements, Summary of Significant Accounting Policies, includes a detailed description of our significant accounting policies. Our significant accounting policies are fundamental to understanding our financial condition and results of operations because some of these policies require that we make significant estimates and assumptions that may affect the value of our assets or liabilities and our financial results. We believe that certain of our policies are critical because they require us to make difficult, subjective and complex judgments about matters that are inherently uncertain. The critical policies summarized below relate to classifications of investment securities, revenue recognition, accounting for derivative financial instruments and hedging activities, and stock-based compensation. We have reviewed these accounting policies with our board of directors and believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made based upon information available to us at the time. We rely on the Manager's experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates.

#### *Classifications of Investment Securities*

Statement of Financial Accounting Standards, or SFAS, No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires us to classify our investment portfolio as either trading investments, available-for-sale investments or held-to-maturity investments. Although we generally plan to hold most of our investments to maturity, we may, from time to time, sell any of our investments due to changes in market conditions or in accordance with our investment strategy. Accordingly, SFAS No. 115 requires us to classify all of our investment securities as available-for-sale. We report all investments classified as available-for-sale at fair value, based on market prices provided by dealers, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of September 30, 2006, we had aggregate unrealized losses on our available-for-sale securities of \$2.4 million, which if not recovered, may result in the recognition of future losses.

We evaluate our available-for-sale investments for other-than-temporary impairment charges on available-for-sale securities under SFAS No. 115 in accordance with Emerging Issues Task Force, or EITF, 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. SFAS No. 115 and EITF 03-1 requires an investor to determine when an investment is considered impaired (i.e., decline in fair value below its amortized cost), evaluate whether the impairment is other than temporary (i.e., the investment value will not be recovered over its remaining life), and, if the impairment is other than temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value. The guidance also includes accounting considerations subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. EITF 03-1 also includes disclosure requirements for investments in an unrealized loss position for which other-than-temporary impairments have not been recognized.

We record investment securities transactions on the trade date. We record purchases of newly issued securities when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. We determine realized gains and losses on investment securities on the specific identification method.

---

**Table of Contents***Repurchase Agreements*

We finance the acquisition of our agency ABS-RMBS solely through the use of repurchase agreements. In addition, we intend to use repurchase agreements as a short-term financing source for our commercial real estate loan portfolio prior to the execution of a CDO. Although structured as a sale and purchase obligation, a repurchase agreement operates as a financing arrangement under which we pledge our securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral, while we retain beneficial ownership of the pledged collateral. We carry these repurchase agreements at their contractual amounts, as specified in the respective agreements. We recognize interest expense on all borrowings on an accrual basis.

In certain circumstances, we have purchased debt investments from a counterparty and subsequently financed the acquisition of those debt investments through repurchase agreements with the same counterparty. We currently record the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated income statements. However, under a certain technical interpretation FASB Statement No. 140, or SFAS 140, such transactions may not qualify as a purchase by us. We believe, and it is industry practice, that we are accounting for these transactions in an appropriate manner. However, the result of this technical interpretation would prevent us from presenting the debt investments and repurchase agreements and the related interest income and interest expense on a gross basis on our financial statements. Instead, we would present the net investment in these transactions with the counterparty and a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of September 30, 2006, we had no transactions in MBS where debt instruments were financed with the same counterparty.

*Interest Income Recognition*

We accrue interest income on our MBS, commercial real estate loans, other ABS, bank loans, equipment leases and notes and private equity investments using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. We amortize or accrete into interest income premiums and discounts over the lives of the investments also using the effective yield method (or a method that approximates effective yield), adjusted for the effects of estimated prepayments based on SFAS No. 91,

Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. For investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires that we make estimates of future prepayment rates for our investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that we use directly impact the estimated remaining lives of our investments. We review and adjust our prepayment estimates as of each quarter end or more frequently if we become aware of any material information that would lead us to believe that an adjustment is necessary. If our estimate of prepayments is incorrect, we may have to adjust the amortization or accretion of premiums and discounts, which would have an impact on future income.

We use both our experience and judgment and third-party prepayment projections when developing our estimates of future prepayment rates. Prepayment rates for residential mortgage loans and their related ABS-RMBS are very difficult to predict accurately because the underlying borrowers have the option to prepay their mortgages at any time before the contractual maturity date of their mortgages, generally without incurring any prepayment penalties. Prepayment models attempt to predict borrower behavior under different interest rate scenarios and the related projected prepayment rates. The experience of the Manager's managers indicates that prepayment models are less accurate during periods when there are material interest rate changes and material changes in the shape of the interest rate yield curves.

---

## **Table of Contents**

If we experience material differences between our projected prepayment rates and the actual prepayment rates that we realize, the remaining estimated lives of our investments may change and result in greater earnings volatility and/or lower net income than originally estimated. We may mitigate this risk by minimizing the amount of purchase premium and purchase discount on our investment portfolio and by purchasing investments where the underlying borrowers have no or fewer prepayment options. As of September 30, 2006, the aggregate amount of unamortized purchase premium on our ABS-RMBS portfolio totaled approximately \$142,000 and the aggregate amount of unamortized purchase discount totaled approximately \$2.9 million. Net purchase discount and purchase premium accretion totaled approximately \$478,000 for the nine months ended September 30, 2006.

### *Accounting for Derivative Financial Instruments and Hedging Activities*

Our policies permit us to enter into derivative contracts, including interest rate swaps and interest rate caps forwards, as a means of mitigating our interest rate risk on forecasted interest expense associated with the benchmark rate on forecasted rollover/reissuance of repurchase agreements or the interest rate repricing of repurchase agreements, or other similar hedged items, for a specified future time period.

As of September 30, 2006, we had engaged in 11 interest rate swaps, four forward interest swaps and one interest rate cap with a notional value of \$227.3 million and a fair value of (\$3.3) million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. The contracts we have entered into have been designated as cash flow hedges and are evaluated at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. A hedge instrument is highly effective if changes in the fair value of the derivative provide an offset to at least 80% and not more than 125% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged. The futures and interest rate swap contracts are carried on the consolidated balance sheets at fair value. Any ineffectiveness which arises during the hedging relationship must be recognized in interest expense during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gain and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on futures contracts are reclassified into earnings as an adjustment to interest expense during the specified hedge time period. Realized gains and losses on the interest rate hedges are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap. For taxable income purposes, realized gains and losses on futures and interest rate cap and swap contracts are reclassified into earnings over the term of the hedged transactions as designated for tax.

We are not required to account for derivative contracts using hedge accounting as described above. If we decided not to designate the derivative contracts as hedges and to monitor their effectiveness as hedges, or if we entered into other types of financial instruments that did not meet the criteria to be designated as hedges, changes in the fair values of these instruments would be recorded in the statement of operations, potentially resulting in increased volatility in our earnings.

### *Income Taxes*

We expect to operate in a manner that will allow us to qualify and be taxed as a REIT and to comply with the provisions of the Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income which is distributed to its stockholders, provided, that at least 90% of REIT taxable income is distributed and certain other requirements are met. If we fail to meet these requirements and does not qualify for certain statutory relief provisions, we would be subject to federal income tax. We have a wholly-owned domestic subsidiary, Resource TRS, that we and Resource TRS have elected to be treated as a taxable REIT subsidiary. For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by the us with respect to our interest in Resource TRS, a domestic taxable REIT subsidiary, because it is taxed as a regular subchapter C corporation under the provisions of the Code. As of

---

## **Table of Contents**

September 30, 2006, Resource TRS did not have any taxable income. Apidos CDO I and Apidos CDO III, our foreign TRSs, are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands, and are generally exempt from federal and state income tax at the corporate level because their activities in the United States are limited to trading in stock and securities for their own account. Therefore, despite their status as TRSs, they generally will not be subject to corporate tax on their earnings and no provision from income taxes is required; however because they are controlled foreign corporations, we will generally be required to include their current taxable income in our calculation of REIT taxable income.

### *Loans*

Our investments in corporate leveraged loans and commercial real estate loans are held for investment and, therefore, we record them on our consolidated balance sheets initially at their purchase price less any origination fees applied at closing and subsequently account for them based on their outstanding principal plus or minus unamortized premiums or discounts. In certain instances when the credit fundamentals underlying a particular loan have changed in such a manner that our expected return on investment may decrease, we may sell a loan held for investment. Since the determination has been made that we will no longer hold the loan for investment, we will identify these loans as loans held for sale and will account for these loans at the lower of amortized cost or market value.

### *Direct Financing Leases and Notes*

We invest in small- and middle-ticket equipment leases and notes. Investments in leases are recorded in accordance with SFAS No. 13, Accounting for Leases, as amended and interpreted. Direct financing leases and notes transfer substantially all benefits and risks of equipment ownership to the customer. Our investment in direct financing leases consists of the sum of the total future minimum lease payments receivable, less unearned finance income. Unearned finance income, which is recognized over the term of the lease and financing by utilizing the effective interest method, represents the excess of the total future minimum lease payments and contract payments over the cost of the related equipment. Our investment in notes receivable consists of the sum of the total future minimum loan payments receivable less unearned finance income.

### *Loan Interest Income Recognition*

Interest income on loans includes interest at stated rates adjusted for amortization or accretion of premiums and discounts. Premiums and discounts are amortized or accreted into income using the effective yield method. When we purchase a loan or pool of loans at a discount, we consider the provisions of the American Institute of Certified Public Accountants Statement of Position 03-3 Accounting for Certain Loans or Debt Securities Acquired in a Transfer to evaluate whether all or a portion of the discount represents accretable yield. If a loan with a premium or discount is prepaid, we immediately recognize the unamortized portion as a decrease or increase to interest income.

### *Stock Based Compensation*

Pursuant to our 2005 stock incentive plan, we granted 345,000 shares of restricted stock and options to purchase 651,666 shares of common stock to the Manager. Holders of the restricted shares have all of the rights of a stockholder, including the right to vote and receive dividends. We account for the restricted stock and stock options granted in accordance with the consensus in Issue 1 of EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, and SFAS No. 123, Accounting for Stock-Based Compensation. During 2006, we continued to apply the provisions of EITF 96-18, but effective January 1, 2006, we also adopted the provisions of SFAS No. 123(R) Share-Based Payment. Under SFAS No. 123(R), our compensation expense for options is accounted for using a fair-value-based method with the (non-cash) compensation expense being recorded in the financial statements over the vesting period. We elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and, therefore, have not restated financial results for prior periods. The adoption of SFAS No. 123(R)

## **Table of Contents**

did not have any significant impact on prior periods. In accordance with EITF 96-18, we recorded the stock and options in stockholders' equity at fair value through an increase to additional paid-in-capital and an off-setting entry to deferred equity compensation (a contra-equity account). We will amortize the deferred compensation over a three year graded vesting period with the amortization expense reflected as equity compensation expense. The unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. We reflect change in fair value in stockholders' equity in the equity compensation expense recognized in that quarter and in future quarters until the stock and options are fully vested.

We also issued 4,000 and 4,224 shares of stock to our directors on March 8, 2005 and March 31, 2006, respectively. The stock awards vest in full one year after the date of the grant. We account for this issuance using the fair value based methodology prescribed by SFAS No. 123(R). Pursuant to SFAS No. 123(R), we measured the fair value of the award on the grant date and recorded this value in stockholders' equity through an increase to additional paid-in capital and an offsetting entry to deferred equity compensation. This amount is not remeasured under the fair value-based method. The deferred compensation is amortized and included in equity compensation expense.

### *Incentive Compensation*

Our management agreement with the Manager also provides for incentive compensation if our financial performance exceeds certain benchmarks. Under the management agreement, the incentive compensation will be paid up to 75% in cash and at least 25% in stock. The cash portion of the incentive fee is accrued and expensed during the period for which it is calculated and earned. In accordance with SFAS No. 123(R) and EITF 96-18, the restricted stock portion of the incentive fee is also accrued and expensed during the period for which it is calculated and earned. Shares granted in connection with the incentive fee will vest immediately. For the nine months ended September 30, 2006, the Manager received incentive management compensation of \$432,000.

### **Variable Interest Entities**

In December 2003, the FASB issued FIN 46-R. FIN 46-R addresses the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to a VIE and requires that the assets, liabilities and results of operations of a VIE be consolidated into the financial statements of the enterprise that has a controlling financial interest in it. The interpretation provides a framework for determining whether an entity should be evaluated for consolidation based on voting interests or significant financial support provided to the entity which we refer to as variable interests. We considers all counterparties to a transaction to determine whether a counterparty is a VIE and, if so, whether our involvement with the entity results in a variable interest in the entity. If we determine that we have a variable interest in the entity, we perform analysis to determine whether we are the primary beneficiary. As of September 30, 2006, we determined that Resource Real Estate Funding CDO 2006-1, Ischus CDO II, Apidos CDO I and Apidos CDO III were VIEs and that we were the primary beneficiary of the VIEs. We own 100% of the equity interests of our four CDOs and, accordingly, we consolidated these entities.

### **Inflation**

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors based primarily by our net income as calculated for tax purposes; in each case, our activities and consolidated balance sheets are measured with reference to historical cost and/or fair market value without considering inflation.

---

**Table of Contents**

**Quantitative and Qualitative Disclosures about Market Risk**

As of September 30, 2006 and December 31, 2005, the primary component of our market risk was interest rate risk, as described below. While we do not seek to avoid risk completely, we do seek to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient compensation to justify assuming that risk and to maintain capital levels consistent with the risk we undertake or to which we are exposed.

*Interest Rate Risk*

We are subject to interest rate risk in conjunction with our investments in fixed rate, adjustable rate and hybrid adjustable rate agency ABS-RMBS and our related debt obligations, which, as of September 30, 2006, were generally repurchase agreements of limited duration that are periodically refinanced at current market rates, and our derivative contracts.

*Effect on Net Interest Income*

We invest in hybrid adjustable-rate agency ABS-RMBS. Hybrid adjustable-rate agency ABS-RMBS have interest rates that are fixed for the first few years of the loan (typically three, five, seven or ten years) and thereafter their interest rates reset periodically on the same basis as adjustable-rate agency ABS-RMBS. We compute the projected weighted-average life of our hybrid adjustable-rate agency ABS-RMBS based on the market's assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. When we acquire a hybrid adjustable-rate agency ABS-RMBS with borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related agency ABS-RMBS. This strategy is designed to protect us from rising interest rates because the borrowing costs are fixed for the duration of the fixed-rate portion of the related ABS-RMBS. However, if prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate portion of the related ABS-RMBS could extend beyond the term of the swap agreement or other hedging instrument. This situation could negatively impact us as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the hybrid adjustable-rate agency ABS-RMBS would remain fixed. This results in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. This situation may also cause the market value of our hybrid adjustable-rate agency ABS-RMBS to decline with little or no offsetting gain from the related hedging transactions. In certain situations, we may be forced to sell assets and incur losses to maintain adequate liquidity.

*Hybrid Adjustable-Rate Agency ABS-RMBS Interest Rate Cap Risk*

We may also invest in hybrid adjustable-rate agency ABS-RMBS which are based on mortgages that are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which an adjustable-rate or hybrid adjustable-rate agency ABS-RMBS's interest yield may change during any given period. However, our borrowing costs pursuant to our repurchase agreements will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our adjustable-rate and hybrid adjustable-rate agency ABS-RMBS would effectively be limited by caps. This problem will be magnified to the extent we acquire adjustable-rate and hybrid adjustable-rate agency ABS-RMBS that are not based on mortgages which are fully-indexed. In addition, the underlying mortgages may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on our adjustable-rate and hybrid adjustable-rate agency ABS-RMBS than we need in order to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would negatively impact our financial condition, cash flows and results of operations.



## **Table of Contents**

### *Interest Rate Mismatch Risk*

We intend to fund a substantial portion of any acquisitions we may make of hybrid adjustable-rate agency ABS-RMBS with borrowings that have interest rates based on indices and repricing terms similar to, but of shorter maturities than, the interest rate indices and repricing terms of the ABS-RMBS. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. Therefore, our cost of funds would likely rise or fall more quickly than would our earnings rate on assets. During periods of changing interest rates, such interest rate mismatches could negatively impact our financial condition, cash flows and results of operations.

Our analysis of risks is based on management's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by the Manager may produce results that differ significantly from our expectations.

### *Prepayment Risk*

Prepayments are the full or partial repayment of principal prior to the original term to maturity of a mortgage loan and typically occur due to refinancing of the mortgage loan. Prepayment rates for existing ABS-RMBS generally increase when prevailing interest rates fall below the market rate existing when the underlying mortgages were originated. In addition, prepayment rates on adjustable-rate and hybrid adjustable rate agency ABS-RMBS generally increase when the difference between long-term and short-term interest rates declines or becomes negative. Prepayments of ABS-RMBS could harm our results of operations in several ways. Some adjustable-rate mortgages underlying our adjustable-rate agency ABS-RMBS may bear initial "teaser" interest rates that are lower than their "fully-indexed" rates, which refers to the applicable index rates plus a margin. In the event that such an adjustable-rate mortgage is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, the holder of the related mortgage-backed security would have held such security while it was less profitable and lost the opportunity to receive interest at the fully-indexed rate over the expected life of the adjustable-rate mortgage-backed security. Although we currently do not own any adjustable-rate agency ABS-RMBS with "teaser" rates, we may obtain some in the future which would expose us to this prepayment risk. Additionally, we currently own ABS-RMBS that were purchased at a premium. The prepayment of such ABS-RMBS at a rate faster than anticipated would result in a write-off of any remaining capitalized premium amount and a consequent reduction of our net interest income by such amount. Finally, in the event that we are unable to acquire new ABS-RMBS to replace the prepaid ABS-RMBS, our financial condition, cash flow and results of operations could be negatively impacted.

### *Effect on Fair Value*

Another component of interest rate risk is the effect changes in interest rates will have on the market value of our assets. We face the risk that the market value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments.

We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

**Table of Contents**

The following sensitivity analysis tables show, at September 30, 2006 and December 31, 2005, the estimated impact on the fair value of our interest rate-sensitive investments and liabilities of changes in interest rates, assuming rates instantaneously fall 100 basis points and rise 100 basis points (dollars in thousands):

	September 30, 2006		
	Interest rates fall 100 basis points	Unchanged	Interest rates rise 100 basis points
<b>Other ABS<sup>(1)</sup></b>			
Fair value	\$ 37,924	\$ 35,820	\$ 33,873
Change in fair value	\$ 2,104	\$	\$ (1,947)
Change as a percent of fair value	5.87%		5.44%
<b>Repurchase and secured term facility<sup>(2)</sup></b>			
Fair value	\$ 857,247	\$ 857,247	\$ 857,247
Change in fair value	\$	\$	\$
Change as a percent of fair value			
<b>Hedging instruments</b>			
Fair value	\$ (14,599)	\$ (3,094)	\$ 7,522
Change in fair value	\$ (11,505)	\$	\$ 10,616
Change as a percent of fair value	n/m		n/m
	December 31, 2005		
	Interest rates fall 100 basis points	Unchanged	Interest rates rise 100 basis points
<b>Hybrid adjustable-rate agency ABS-RMBS and other ABS<sup>(1)</sup></b>			
Fair value	\$ 1,067,628	\$ 1,038,878	\$ 1,011,384
Change in fair value	\$ 28,750	\$	\$ (27,494)
Change as a percent of fair value	2.77%		2.65%
<b>Repurchase and warehouse agreements<sup>(2)</sup></b>			
Fair value	\$ 1,131,238	\$ 1,131,238	\$ 1,131,238
Change in fair value	\$	\$	\$
Change as a percent of fair value			
<b>Hedging instruments</b>			
Fair value	\$ (4,651)	\$ 3,006	\$ 4,748
Change in fair value	\$ (7,657)	\$	\$ 1,742
Change as a percent of fair value	n/m		n/m

(1) Includes the fair value of other available-for-sale investments that are sensitive to interest rate changes. For September 30, 2006, we have excluded agency ABS-RMBS due to the sale of the portfolio which settled on October 2, 2006.

(2) The fair value of the repurchase agreements and the secured term facility would not change materially due to the short-term nature of these instruments. For purposes of the tables, we have excluded our investments with variable interest rates that are indexed to LIBOR. Because the variable rates on these instruments are short-term in nature, we are not subject to material exposure to movements in fair value as a result of changes in interest rates.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points from current levels. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments,



**Table of Contents**

such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

*Risk Management*

To the extent consistent with maintaining our status as a REIT, we seek to manage our interest rate risk exposure to protect our portfolio of ABS-RMBS and related debt against the effects of major interest rate changes. We generally seek to manage our interest rate risk by:

monitoring and adjusting, if necessary, the reset index and interest rate related to our mortgage-backed securities and our borrowings;

attempting to structure our borrowing agreements for our ABS-RMBS to have a range of different maturities, terms, amortizations and interest rate adjustment periods; and

using derivatives, financial futures, swaps, options, caps, floors and forward sales, to adjust the interest rate sensitivity of our ABS-RMBS and our borrowing.

**Table of Contents**

**BUSINESS**

**Our Company**

We are a commercial real estate specialty finance company that qualifies as a REIT for federal income tax purposes. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of commercial real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

Our investments will target the following asset classes:

<b>Asset class</b>	<b>Principal investments</b>
Commercial real estate-related assets	<ul style="list-style-type: none"> <li>Whole loans</li>    <li>A notes</li>    <li>B notes</li>    <li>Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party financing</li> </ul>
Residential real estate-related assets	<ul style="list-style-type: none"> <li>CMBS</li> <li>ABS-RMBS</li> </ul>
Commercial finance assets	<ul style="list-style-type: none"> <li>Bank loans</li>    <li>Other ABS, backed principally by small business and bank loans and, to a lesser extent, by consumer receivables</li>    <li>Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes</li> </ul>

Trust preferred securities of financial institutions

Debt tranches of CDOs

Private equity investments, principally issued by financial institutions

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets and hedge interest rate risks. We generate revenues from the interest we earn on commercial real estate-related assets, residential real estate-related assets and commercial finance assets. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income will depend on our ability to control these expenses relative to our revenue. In our commercial real estate loan portfolio, we use repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as a long-term financing source. In our ABS-RMBS, CMBS, other ABS, bank loans and equipment leases and notes, we use warehouse facilities as a short-term financing source and CDOs, and, to a lesser extent, other term financing as a long-term financing source. We expect that our other term financing will consist of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs.

---

**Table of Contents**

Before October 2, 2006, we had a significant portfolio of agency ABS-RMBS. In order to redeploy the capital we had invested in this asset class into higher-yielding asset classes, we entered into an agreement to sell this portfolio on September 27, 2006. The sale settled on October 2, 2006, and we had no remaining agency ABS-RMBS. We had financed the acquisition of our agency ABS-RMBS with short-term repurchase arrangements. We also had sought to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency ABS-RMBS and the maturities and repricing dates of the repurchase agreements we used to finance them through derivative instruments, principally floating-to-fixed interest rate swap agreements and interest rate cap agreements. We terminated these derivatives upon completion of the sale of our agency ABS-RMBS portfolio.

On March 8, 2005, we received net proceeds of \$214.8 million from a private placement of 15,333,334 shares of common stock. On February 10, 2006, we received net proceeds of \$27.3 million from our initial public offering of 4,000,000 shares of common stock. These shares included 1,879,200 shares sold by selling stockholders. As of September 30, 2006, we had invested 20.3% of our portfolio in commercial real estate-related assets, 48.2% in ABS-RMBS and 31.5% in commercial finance assets. As a result of the October 2, 2006 settlement of our agency ABS-RMBS portfolio, our portfolio composition after to the third quarter has shifted so that, as of that date and giving effect to the sale, we had invested 30.3% of our portfolio in commercial real estate-related assets, 22.5% in ABS-RMBS and 47.2% in commercial finance assets.

We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. Credit quality refers to the probability that a loan will be repaid in a timely manner. In general, as credit quality decreases, yields increase to compensate for increased default risk. If we are unable to maintain the credit quality of our portfolio, we will be subject to increased default risk, including the risk of payment defaults. If we experience payment defaults, our revenues will be reduced and our costs, particularly costs we incur to enforce our rights with respect to defaulting assets, may increase, thereby reducing our earnings.

Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes. To illustrate, after giving effect to the agency ABS-RMBS portfolio settlement on October 2, 2006, our equity was invested 68.0% in commercial real estate-related assets, 21.7% in commercial finance assets and 10.3% in ABS-RMBS. We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. Investing in multiple asset classes does not, however, reduce or eliminate many of the risks associated with our investment portfolio such as geographic concentration risk and credit risk. We may change our investment strategies and policies, and the percentage of assets that may be invested in each asset class, without a vote of our stockholders.

Because we elected and qualified to be taxed as a REIT and intend to operate our business so as to be excluded from regulation under the Investment Company Act, we are required to invest at least 55% of our assets in qualifying real estate assets, such as whole pool certificates, B notes where we have unilateral right to (i) instruct the servicer to foreclose on a defaulted mortgage loan, (ii) replace the servicer in the event that the servicer, in its discretion, elects not to foreclose on such a loan, and (iii) purchase the A note in the event of a default on the mortgage loan and foreclose on the loan, mezzanine debt that is the functional equivalent of second mortgage loans, mortgage loans and other liens on and interests in real estate. Therefore, the percentage of our assets we may invest in other MBS, other B notes, mezzanine debt, other ABS, bank loans, equipment leases and notes, trust preferred securities, private equity and other types of investments is limited, unless those investments comply with federal income tax requirements for REIT qualification and requirements for exclusion from Investment Company Act regulation.

Our income is generated primarily from the net interest spread, or the difference between the interest income we earn on our investment portfolio and the cost of financing our investment portfolio, which includes the interest expense, fees, and related expenses that we pay on our borrowings and the cost of the interest rate hedges that we use to manage our interest rate risk.

**Table of Contents****Our Investment Portfolio**

As of September 30, 2006, excluding the agency ABS-RMBS portfolio we agreed to sell on September 27, 2006 and settled on October 2, 2006, our investment portfolio consisted of the following (dollars in thousands):

	Amortized cost	Estimated fair value	Percent of our total investments <sup>(1)</sup>	Weighted average coupon <sup>(1)</sup>
<b>Commercial real estate-related assets</b>				
Whole loans	75,821	75,821	4.92%	8.50%
A notes	42,517	42,517	2.76%	6.64%
B notes	162,171	162,171	10.52%	8.55%
Mezzanine loans	159,146	159,146	10.32%	8.24%
CMBS	27,954	27,388	1.78%	5.53%
Total commercial real estate-related assets	467,609	467,043	30.30%	8.09%
<b>Residential real estate-related assets</b>				
ABS-RMBS	346,988	347,078	22.52%	6.87%
Total residential real estate-related assets	346,988	347,078	22.52%	6.87%
<b>Commercial finance assets</b>				
Bank loans	614,947	613,885	39.83%	7.73%
Other ABS	21,452	21,418	1.39%	6.97%
Equipment leases and notes	91,909	91,909	5.96%	8.13%
Total commercial finance assets	728,308	727,212	47.18%	7.75%
Total	\$ 1,542,905	\$ 1,541,333	100.00%	8.54%

(1) Based on estimated fair value.

The table below summarizes our borrowings as of September 30, 2006, excluding borrowings repaid upon the settlement of our agency ABS-RMBS portfolio on October 2, 2006 (dollars in thousands):

	Outstanding borrowings	Weighted average borrowing rate	Weighted average remaining maturity	Value of collateral
Repurchase agreements	\$ 53,906	6.57%	18 days	\$ 71,462
CDOs <sup>(1)</sup>	1,206,751	5.85%	24.8 years	1,349,594
Secured term facility	87,080	6.34%	3.5 years	91,909
Unsecured junior subordinated debentures <sup>(2)</sup>	51,548	9.39%	29.9 years	
Total	\$ 1,399,285	6.04%		\$ 1,512,965

(1) Amount represents principal outstanding of \$1.2 billion less unamortized issuance costs of \$18.7 million as of September 30, 2006.

(2) Amount represents junior subordinated debentures issued to Resource Capital Trust I and RCC Trust II in connection with each respective trust's issuance of trust preferred securities in May 2006 and September 2006, respectively.

**Business Strengths**



## Edgar Filing: Resource Capital Corp. - Form S-11/A

*Experienced senior management team.* Our senior management team, led by Edward E. Cohen and Jonathan Z. Cohen, has significant experience in real estate investment, commercial lending, financing, securitization, capital markets, transaction structuring and risk management. Individually and through their involvement with Resource America, they also have significant experience in sponsoring and managing public companies in the real estate, financial services and energy sectors, including the sponsorship of a REIT, RAIT Investment Trust (NYSE: RAS), for which Jonathan Z. Cohen serves as Vice Chairman and a member of the

---

## **Table of Contents**

investment committee. We believe that the broad experience of our executive officers will enable us to generate investment opportunities across all of our targeted asset classes and effectively manage and finance our portfolio. Before its experience in managing us, the Manager had not managed a REIT.

*Deep experience in targeted asset classes.* Through the Manager and Resource America, we have access to a team of 71 investment professionals that has broad experience originating, investing in, managing and financing commercial and residential real estate-related assets and commercial finance assets. We believe that their deep experience in these areas will enable us to achieve our portfolio objectives.

*Established asset management platform.* We benefit from access to Resource America's mature administrative infrastructure, which includes proactive credit analysis and risk management procedures, technology, operations, transaction processing, accounting, legal and compliance, and internal audit functions.

*Disciplined credit culture and credit perspective.* Resource America's disciplined credit culture serves as the backbone for all of its financial services-related businesses. We benefit from Resource America's highly specialized, proprietary credit analysis techniques, such as its proprietary credit and collateral stratifications, stress assessments and its PROTECT procedures for early detection of troubled and deteriorating securities. The Manager, Resource America and our executive officers have extensive experience operating companies in the financial services, real estate and energy sectors and lending to companies in a large group of industries. Through their diverse and ongoing credit experience, they have the ability to bring perspectives from multiple asset sectors together in their analysis of investment opportunities.

*Significant experience in asset-liability management.* Since 2002, Resource America has sponsored 22 CDOs with an original cost of approximately \$9.2 billion in assets, including our four CDOs which originally financed approximately \$1.4 billion of our assets. In addition, Resource America's professionals have significant experience in using hedging instruments to manage the interest rate risk associated with the asset classes we invest in, and managed \$151.3 million in notional amount of interest rate swaps, \$61.0 million in notional amount of forward interest rate swaps and an interest rate cap agreement with a notional amount of \$15.0 for us as of September 30, 2006.

## **Business Strategy**

Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while managing the risks associated with our investment strategy. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives. We intend to achieve this objective by constructing a diversified investment portfolio, using our disciplined approach to credit analysis to identify appropriate opportunities in our targeted asset classes. The Manager intends to apply its credit-based investment strategies to selecting investments in the following general asset classes: commercial real estate-related investments, residential real estate-related investments and commercial finance assets. We expect our agency ABS-RMBS to provide us with a stable foundation where our credit risk will be limited and we can manage our interest rate exposure. We expect our other investments to provide enhanced returns and limited interest rate risk. The core components and values of our business strategy are described in more detail below.

*Disciplined credit underwriting and active risk management.* The core of our investment process is credit analysis and active risk management. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes, and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stresses. After making an investment, Resource America engages in active monitoring of its investments through several highly specialized, proprietary risk management systems, including its PROTECT procedures for early detection of troubled and deteriorating securities. If a default occurs, our senior management team's strong asset management skills will be utilized to mitigate the severity of any losses, and we will seek to optimize the recovery from assets in the event that we foreclose upon them.

## **Table of Contents**

*Investment in higher-yielding assets.* Our portfolio is and will be substantially comprised of assets such as B notes, mezzanine loans, ABS-RMBS and CMBS rated below AAA, and bank loans, which generally have higher yields than more senior or more highly-rated obligations. In line with this strategy, we recently sold our portfolio of agency ABS-RMBS and redeployed the net proceeds into higher yielding assets. Depending upon relative yields we may reinvest in agency RMBS in the future.

*Diversification of investments.* We invest in a diversified portfolio of real estate-related assets, and commercial finance assets. We believe that this strategy of diversifying our portfolio assets will allow us to continually allocate our capital to the most attractive sectors, enhancing the returns we will be able to achieve, while reducing the overall risk of our portfolio through the non-correlated nature of these various asset classes. The percentage of assets that we may invest in certain of our targeted asset classes is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from Investment Company Act regulation.

*Use of leverage.* We use leverage to increase the potential returns to our stockholders, and seek to achieve leverage consistent with our analysis of the risk profile of the investments we finance and the borrowing sources available to us. Our income is generated primarily from the net spread between the interest income we earn on our investment portfolio and the cost of our borrowings and hedging activities. Leverage can enhance returns but also magnifies losses.

*Active management of interest rate risk and liquidity risk.* We expect to finance a substantial portion of our portfolio investments on a long-term basis through borrowing strategies that seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. These strategies allow us to mitigate our interest rate risk and liquidity risk, resulting in more stable and predictable cash flows and will include the use of CDOs structured for us by the Manager. We will retain the equity portion of the CDO and can retain one or more series of the subordinated obligations issued by the CDO. We also use derivative instruments such as interest rate swaps and interest rate caps to hedge the borrowings we use to finance our assets on a short-term basis. We intend to maintain borrowing arrangements with multiple counterparties in order to manage the liquidity risk associated with our short-term financing.

## **Investment Strategy**

We seek to implement our business strategies in each of our targeted asset classes as described in this section. We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. We may change our investment strategies, policies and guidelines and the percentage of our assets that may be invested in each asset class or, in the case of securities, in a single issuer, without a vote of our stockholders.

### ***Commercial Real Estate-Related Investments***

*Whole loans.* We originate first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enable us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan, consisting of an A note, B notes, mezzanine loans or other participations, which we may hold or sell to third parties. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction.

As of September 30, 2006, we held four whole loans with an estimated fair value of \$75.8 million, or 4.92% of our total investments. The loans had an original weighted average LTV ratio of 80.8%. These investments are consistent with our strategic target for this asset class. Our whole loan investments which were financed through CDOs were leveraged 3.3 times and those financed through repurchase agreements were leveraged 4.1 times. The loans bear interest at a floating rate of LIBOR plus a weighted average spread of 315 basis points, and mature between August 2007 and September 2008, in general, we expect to leverage our whole loan investments in the range of two to six times.

---

**Table of Contents**

*Senior interests in whole loans (A notes).* We invest in senior interests in whole loans, referred to as A notes, either directly originated or purchased from third parties. A notes are loans that generally, consist of senior participations, or a componentized note, at the senior position within a first mortgage. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our A note investments to have LTV ratios of up to 70%.

As of September 30, 2006, we held two A notes with an estimated fair value of \$42.5 million, or 2.76% of our total investments. The loans had an original weighted average LTV ratio of 57.5%. These investments are consistent with our strategic target for this asset class. Our A note investments were leveraged 3.3 times through CDO financing. The loans bear interest at a floating rate of LIBOR plus a weighted average spread of 130 basis points, and mature between January and April 2008. Our target leverage range for this asset class is four to six times.

*Subordinate interests in whole loans (B notes).* We invest in subordinate interests in whole loans, referred to as B notes either directly originated or purchased from third parties. B notes are loans secured by a first mortgage and subordinated to a senior interest, referred to as an A note. The subordination of a B note is generally evidenced by an intercreditor or participation agreement between the holders of the A note and the B note. In some instances, the B note lender may require a security interest in the stock or partnership interests of the borrower as part of the transaction. B note lenders have the same obligations, collateral and borrower as the A note lender, but typically are subordinated in recovery upon a default. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We expect our B note investments to have LTV ratios of between 55% and 80%. Typical B note investments will have terms of three years to five years, and are generally structured with an original term of up to three years, with one year extensions that bring the loan to a maximum term of five years. We expect to hold our B note investments to their maturity.

In addition to the interest payable on the B note, we may earn fees charged to the borrower under the note or additional income by receiving principal payments in excess of the discounted price (below par value) we paid to acquire the note. Our ownership of a B note with controlling class rights may, in the event the financing fails to perform according to its terms, cause us to elect to pursue our remedies as owner of the B note, which may include foreclosure on, or modification of, the note. In some cases the owner of the A note may be able to foreclose or modify the note against our wishes as owner of the B note. As a result, our economic and business interests may diverge from the interests of the owner of the A note.

As of September 30, 2006, we held ten B notes with an estimated fair value and an amortized cost of \$162.2 million, or 10.52% of our total investments. The loans had an original weighted average LTV ratio of 73.9%. Our B note investments which were financed through CDOs were leveraged 3.3 times and those financed through repurchase agreements were leveraged 1.9 times. One B note investment with an amortized cost of \$25.2 million was not financed at September 30, 2006. Eight of the loans bear interest at a floating rate of LIBOR plus a weighted average spread of 347 basis points and mature between January 2007 and April 2008 and two of the loans bear interest at a fixed rate of 7.18% to 8.68% and mature between April 2016 and July 2016. In general, we expect to leverage our investments in B notes in the range of two to six times.

*Mezzanine financing.* We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Our mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. We expect our mezzanine

**Table of Contents**

investments to have LTV ratios between 65% and 90%. We expect the stated maturity of our mezzanine financings to range from three to five years. Mezzanine loans may have maturities that match the maturity of the related mortgage loan but may have shorter or longer terms. We expect to hold these investments to maturity.

As of September 30, 2006, we held six floating rate mezzanine loans and eight fixed rate mezzanine loans with an estimated fair value and amortized cost of \$159.1 million, or 10.32% of our total investments. The loans had an original weighted average LTV ratio of 79.8%. The floating rate loans bear interest at a floating rate of LIBOR plus a weighted average spread of 285 basis points and mature between October 2009 and September 2016. The fixed rate loans bear interest at a fixed rate between 7.58% and 11.00% and matures between August 2007 and January 2016. Our mezzanine loan investments financed through CDOs were leveraged 3.3 times and those financed through repurchase agreements were leveraged 3.3 times. One mezzanine loan with an amortized cost of \$3.2 million was not financed at September 30, 2006. We currently expect to leverage our investments in mezzanine obligations in the range of two to six times.

**CMBS.** We invest in CMBS, which are securities that are secured by or evidence interests in a pool of mortgage loans secured by commercial properties. These securities may be senior or subordinate and may be either investment grade or non-investment grade. We expect that the majority of our CMBS investments will be rated by at least one nationally recognized rating agency.

The yields on CMBS depend on the timely payment of interest and principal due on the underlying mortgage loans and defaults by the borrowers on such loans may ultimately result in deficiencies and defaults on the CMBS. In the event of a default, the trustee for the benefit of the holders of CMBS has recourse only to the underlying pool of mortgage loans and, if a loan is in default, to the mortgaged property securing such mortgage loan. After the trustee has exercised all of the rights of a lender under a defaulted mortgage loan and the related mortgaged property has been liquidated, no further remedy will be available. However, holders of relatively senior classes of CMBS will be protected to a certain degree by the structural features of the securitization transaction within which such CMBS were issued, such as the subordination of the relatively more junior classes of the CMBS.

As of September 30, 2006, \$27.4 million on an estimated fair value basis (\$28.0 million on an amortized cost basis), or 1.78% of our total investments, consisted of CMBS. The table below summarizes our CMBS (unaudited, dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	Amortized cost	Dollar price
<b>Moody's ratings category:</b>		
Baa1 through Baa3	\$ 27,954	98.75%
<b>Total</b>	<b>\$ 27,954</b>	<b>98.75%</b>
<b>S&amp;P ratings category:</b>		
BBB+ through BBB-	\$ 12,193	99.07%
No rating provided	\$ 15,761	98.51%
<b>Total</b>	<b>\$ 27,954</b>	<b>98.75%</b>

Weighted average rating factor 346

As of September 30, 2006, our investments in CMBS were leveraged 13.9 times. In general, after financing our CMBS through CDOs or other term financing, we expect our leverage for this asset class to be in the range of 10 to 15 times.

**Residential Real Estate-Related Investments**

We invest in ABS-RMBS, which are securities that are secured by or evidence interests in a pool of residential mortgage loans. These securities may be issued by government sponsored agencies or other entities

**Table of Contents**

and may or may not be rated investment grade by rating agencies. The principal difference between agency ABS-RMBS and ABS-RMBS is that the mortgages underlying the ABS-RMBS do not conform to agency guidelines as a result of documentation deficiencies, high LTV ratios or credit quality issues. We expect that our ABS-RMBS will include loan pools with home equity loans (loans that are secured by subordinate liens), residential B/C loans (loans where the borrower's FICO score, a measure used to rate the financial strength of the borrower, is low, generally below 625), Alt-A loans (where the borrower's FICO score is between 675 and 725) and high LTV loans (loans where the LTV 95% or greater).

Our investment strategy within our ABS-RMBS portfolio includes an analysis of credit, relative value, supply and demand, costs of hedging, forward LIBOR interest rate volatility and the overall shape of the U.S. treasury and interest rate swap yield curves.

As of September 30, 2006, excluding the agency ABS-RMBS portfolio we settled on October 2, 2006, we had invested \$347.1 million on a fair value basis (\$347.0 million on an amortized cost basis), or 22.52% of our total investments, in ABS-RMBS. These loans had an original LTV ratio of 79.92%. The table below summarizes our ABS-RMBS (unaudited, dollars in thousands). Dollar price is compared by dividing amortized cost by par amount.

	Amortized cost	Dollar price
<b>Moody's ratings category:</b>		
A1 through A3	\$ 42,273	100.20%
Baa1 through Baa3	279,022	99.86%
Ba1 through Ba3	25,693	91.22%
<b>Total</b>	<b>\$ 346,988</b>	<b>99.21%</b>
<b>S&amp;P ratings category:</b>		
A+ through A-	\$ 58,963	99.62%
BBB+ through BBB-	264,844	99.12%
BB+ through BB-	2,181	92.22%
No rating provided	21,000	100.00%
<b>Total</b>	<b>\$ 346,988</b>	<b>99.21%</b>
Weighted average rating factor	410	
Weighted average original FICO	636	
Weighted average original LTV	79.92%	

As of September 30, 2006, our investments in ABS-RMBS were leveraged 13.9 times. In general, after financing our ABS-RMBS through CDOs or other term financing, we expect our leverage for this asset class to be in the range of 10 to 15 times.

**Commercial Finance Investments**

**Bank loans.** We acquire senior and subordinated, secured and unsecured loans made by banks or other financial entities. Bank loans may also include revolving credit facilities, under which the lender is obligated to advance funds to the borrower under the credit facility as requested by the borrower from time to time. We expect that some amount of these loans will be secured by real estate mortgages or liens on other assets. Certain of these loans may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the loan. These loans may include restrictive financial and operating covenants. We also intend to invest, to a lesser extent, in bonds which pay holders a coupon periodically until maturity of the bonds, when the face value is due.

**Table of Contents**

As of September 30, 2006, we had invested \$613.9 million on a fair value basis (\$614.9 on an amortized cost basis), or 39.83% of our total investments, in bank loans. The table below summarizes our bank loan investments (unaudited, dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	Amortized cost	Dollar price
<b>Moody s ratings category:</b>		
Ba1 through Ba3	\$ 195,373	100.09%
B1 through B3	408,101	100.20%
Caa1 through Caa3	11,473	100.01%
<b>Total</b>	<b>\$ 614,947</b>	<b>100.16%</b>
<b>S&amp;P ratings category:</b>		
BBB+ through BBB-	\$ 9,495	100.00%
BB+ through BB-	219,801	100.13%
B+ through B-	361,376	100.18%
CCC+ through CCC-	15,956	100.11%
No rating provided	8,319	100.00%
<b>Total</b>	<b>\$ 614,947</b>	<b>100.16%</b>
<b>Weighted average rating factor</b>	<b>2,143</b>	

As of September 30, 2006, our investments in bank loans financed through CDOs were leveraged 11.3 times. We expect our leverage for this asset class to be in the range of five to 12 times.

*Other ABS.* We invest in other ABS, principally CDOs backed by small business loans and trust preferred securities of financial institutions such as banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITs. As with CDOs collateralized by ABS-RMBS and CMBS, discussed above, we may invest in either the equity or debt tranches of the CDOs. Although we currently have no plans to do so, we may also invest in consumer ABS, such as ABS backed by credit card receivables and automobile loans. As with CDOs collateralized by ABS-RMBS and CMBS, to avoid actual or potential conflicts of interest we will not invest in any CDO structured, co-structured or managed by the Manager or Resource America other than those structured, co-structured or managed on our behalf.

As of September 30, 2006, we had invested \$21.4 million on a fair value (\$21.5 million on an amortized cost basis), or 1.39% of our total investments, in other ABS. The table summarizes our other ABS (unaudited, dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	Amortized cost	Dollar price
<b>Moody s ratings category:</b>		
Baa1 through Baa3	\$ 20,674	99.89%
Ba1 through Ba3	778	81.89%
<b>Total</b>	<b>\$ 21,452</b>	<b>99.10%</b>
<b>S&amp;P ratings category:</b>		
BBB+ through BBB-	\$ 19,691	99.02%
No rating provided	1,761	100.00%
<b>Total</b>	<b>\$ 21,452</b>	<b>99.10%</b>





## **Table of Contents**

As of September 30, 2006, our investments in other ABS were leveraged 13.9 times. In general, after financing our other ABS through CDOs or other term financing, we expect our leverage for this asset class to be in the range of 10 to 15 times.

*Equipment leases and notes.* We invest in small- and middle-ticket full payout equipment leases and notes. Under full payout leases and notes, the payments we receive over the term of the financing will return our invested capital plus an appropriate return without consideration of the residual and the obligor will acquire the equipment at the end of the payment term. We focus on leased equipment and other assets that are essential for businesses to conduct their operations so that end users will be highly motivated to make required monthly payments. We focus on equipment in the following areas:

general office equipment, such as office machinery, furniture and telephone and computer systems;

medical and dental practices and equipment for diagnostic and treatment use;

energy and climate control systems;

industrial equipment, including manufacturing, material handling and electronic diagnostic systems; and

agricultural equipment and facilities.

As of September 30, 2006, we held \$91.9 million on both a fair value and an amortized cost basis, or 5.96% of our total investments, of equipment leases and notes, net of unearned income. Our investments in equipment and notes were leveraged 18.0 times. In general, after financing our equipment leases and notes, secured term financing or other term financing, we expect our leverage for this asset class to be in the range of three to nine times.

*Trust preferred securities.* We may invest in trust preferred securities, with an emphasis on securities of small- to middle-market financial institutions, including banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITS. Trust preferred securities are issued by a special purpose trust that holds a subordinated debenture or other debt obligation issued by a company to the trust. The company holds the equity interest in the trust, with the preferred securities of the trust being sold to investors. The trust invests the proceeds of the preferred securities in the sponsoring company through the purchase of the debenture issued by the company. Issuers of trust preferred securities are generally affiliated with financial institutions because, under current regulatory and tax structures, unlike the proceeds from debt securities the proceeds from trust preferred securities may be treated as primary regulatory capital by the financial institution, while it may deduct the interest it pays on the debt obligation held by the trust from its income for federal income tax purposes. Our focus will be to invest in trust preferred securities issued by financial institutions that have favorable characteristics with respect to market demographics, cash flow stability and franchise value.

As of September 30, 2006, we had no trust preferred security investments. We currently expect to leverage our investment in trust preferred securities in the range of six to 12 times.

### ***Collateralized Debt Obligations***

We invest in the debt tranches of CDOs collateralized by CMBS, ABS-RMBS, other ABS and bank loans. To avoid any actual or perceived conflicts of interest with the Manager and Resource America, we will not invest in any CDO structured or co-structured by them other than those structured or co-structured on our behalf.

In general, CDOs are issued by special purpose vehicles that hold a portfolio of debt obligation securities. The CDO vehicle issues tranches of debt securities of different seniority, and equity to fund the purchase of the portfolio. The debt tranches are typically rated based on portfolio quality, diversification and structural subordination. The equity securities issued by the CDO vehicle are the first loss piece of the vehicle's capital structure, but they are also generally entitled to all residual amounts available for payment after the vehicle's obligations to the debt holders have been satisfied.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

As of September 30, 2006, we had invested \$18.8 million in CDO transactions, which are included in other ABS. We currently expect to leverage our investments in CDOs in the range of 10 to 15 times.

**Table of Contents**

***Private Equity Investments***

To a lesser extent, subject to limitations imposed by REIT qualification standards and requirements for exclusion from regulation under the Investment Company Act, we also may invest from time to time in equity securities, which may or may not be related to real estate. We do not have a policy regarding the amount in these investments we may hold, but do not expect that they will exceed 2% of our total assets. These investments may include direct purchases of private equity as well as purchases of interests in private equity funds. While we do not have a policy or limitation with respect to the types of securities we may acquire, or the activities of the person in which we may invest, we expect that any such investments will consist primarily of private equity securities issued by financial institutions, particularly banks and savings and thrift institutions. We will follow a value-oriented investment approach and focus on the anticipated future cash flows generated by the underlying business, discounted by an appropriate rate to reflect both the risk of achieving those cash flows and the alternative uses for the capital to be invested. We will also consider other factors such as the strength of management, the liquidity of the investment, the underlying value of the assets owned by the issuer, and prices of similar or comparable securities.

As of September 30, 2006, we had no private equity investments. We expect to leverage our private equity investments in the range of one to three times.

**The Manager**

We are externally managed and advised by the Manager, an indirect wholly-owned subsidiary of Resource America, with whom it shares personnel. We do not have any ownership interest in the Manager. Under our management agreement, the Manager is responsible for providing us with all of the management and support personnel and services necessary for our operation. For a description of the duties of the Manager, see Management Management Agreement Duties. Neither we nor the Manager expect to have any employees of our own, nor does either of us expect to have any independent officers, although our chief financial officer is exclusively dedicated to our operations. The Manager's principal office is located at 712 Fifth Avenue, 10th Floor, New York, New York 10019.

The officers and directors of the Manager are as follows:

<b>Name</b>	<b>Position</b>
Edward E. Cohen	Chairman of the Board
Jonathan Z. Cohen	Chief Executive Officer, President and Director
David J. Bryant	Chief Financial Officer
Steven J. Kessler	Senior Vice President Finance and Director
Thomas C. Elliott	Senior Vice President Finance and Operations
Michael S. Yecies	Chief Legal Officer and Secretary

For biographical information on Messrs. Cohen, Cohen, Bryant, Kessler, Elliott and Yecies, please see Management Directors and Executive Officers and Other Significant Personnel.

Resource America is a publicly-traded specialized asset management company that uses industry-specific expertise to generate and administer investment opportunities for its own account and for institutional and sophisticated individual investors in structured finance (primarily ABS-RMBS, CMBS and other ABS), real estate, equipment leasing and financial services. As of September 30, 2006, Resource America managed approximately \$12.1 billion of assets in these sectors, including approximately \$8.3 billion in CDOs on a cost basis. We do not control the assets or personnel of Resource America.

To provide its services, the Manager draws upon the expertise and experience of Resource America which, as of September 30, 2006, had 219 employees involved in asset management, including 71 asset management

## **Table of Contents**

professionals and 148 asset management support personnel. Resource America conducts its asset management activities through the following subsidiaries:

Resource Real Estate originates, finances and manages investments in real estate and commercial real estate loans. As of September 30, 2006, Resource Real Estate had a team of 22 asset management professionals and nine asset management support personnel, including eight investment professionals who are presently exclusively dedicated to our operations, managing over \$883.7 million of commercial and multi-family real estate assets, of which \$439.7 million were managed on our behalf.

Ischus invests in, finances, structures and manages ABS-RMBS, CMBS and other ABS. As of September 30, 2006, Ischus had a team of eight asset management professionals and three asset management support personnel managing over \$4.4 billion of MBS and other ABS on a cost basis, of which approximately \$1.2 billion was managed on our behalf, including \$395.7 million of assets on a cost basis that were financed through Ischus CDO II, which closed July 27, 2005 and in which we own 100% of the equity. The Ischus CDO II equity interests are subordinate in right of payment to all other securities issued by it.

Apidos invests in, finances and manages bank loans. As of September 30, 2006, Apidos had a team of 11 asset management professionals and three asset management support employee who managed approximately \$2.0 billion of bank loans on a cost basis, of which \$614.9 million were managed on our behalf, all of which were financed through Apidos CDO I, which closed August 4, 2005, and Apidos CDO III, which closed May 9, 2006. We own 100% of the equity in each CDO. The Apidos CDO I and Apidos CDO III equity interests are subordinate in right of payment to all other securities issued by the CDO.

Trapeza, a joint venture between Resource America and an unaffiliated third party, originates, structures, finances and manages trust preferred securities of banks and other financial institutions. As of September 30, 2006, Trapeza managed or co-managed over \$4.2 billion of trust preferred securities on a cost basis, of which \$3.5 billion were held by ten CDOs. Resource America had four asset management professionals and three asset management support personnel dedicated to Trapeza's operations as of September 30, 2006.

LEAF Financial originates, manages and services small- and middle-ticket equipment lease and note receivable assets. LEAF Financial had 24 asset management professionals and 93 asset management support personnel at September 30, 2006 managing approximately \$612.7 million in book value of equipment lease and note receivable assets, of which \$91.9 million was managed on our behalf.

### **Asset Management and Administrative Resources of the Manager and Resource America**

Under our management agreement, we will have access to the management infrastructure that Resource America has built as a Sarbanes Oxley compliant public company.

Resource America has a total of 219 employees who carry out its management operations, and will provide us with the following functions:

A 28-person accounting and finance department reporting to Resource America CFO Steven Kessler provides accounting and internal audit functions. This group also manages, with respect to the CDOs managed by Resource America, investor reporting, the monitoring of cash flows, and interactions with trustees.

An 11-person technology department which is responsible for managing the technology infrastructure of each of Resource America's asset management divisions and its business continuity and disaster recovery functionality.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

A four-person legal department, led by Resource America Chief Legal Officer Michael Yecies, which is responsible for legal and regulatory compliance functions, as well as the monitoring of traders and other employees for compliance with Resource America's internal policies and procedures.

LEAF Financial has a total of 117 employees, including a field sales force and telephone sales force dedicated to originating leasing assets, as well as a servicing department that manages collection

## **Table of Contents**

through strong telephone and mail efforts. LEAF has a complete technology platform that enables automated application, credit scoring based on Dun & Bradstreet data, customer relationship management, asset tracking, collection management, and document generation.

### **Investment Process**

**General.** Our investment process is managed broadly by our investment committee and, under its guidance, more specifically by the Manager and, through it, the asset management divisions of Resource America. See The Manager and Management Investment Committee. The members of our investment committee are Messrs. J. Cohen, E. Cohen, Allen, Blomstrom, Bloom, Feldman, Shook, DeMent and Ms. Bergstresser. For biographical information regarding members of our investment committee please see Directors and Executive Officers and Other Significant Personnel. Our investment committee does not review investments for any other entities. Our investment committee meets at least weekly to establish and review allocation of capital to specific investment strategies and to establish and review guidelines for the specific investment strategies to which capital is allocated. The investment decision process for each strategy consists of various types of diligence and quantitative analyses, depending upon the asset class. However, in general, the Manager follows the decision-making process shown below:

**Investment Guidelines.** We have established and comply with investment policies and procedures and investment guidelines that are reviewed and approved by our investment committee and board of directors. The investment committee meets as frequently as necessary in order for us to achieve our investment objectives. We review our investment portfolio and related compliance with our investment policies and procedures and investment guidelines at each regularly scheduled board of directors meeting.

Our board of directors and investment committee have adopted the following guidelines, among others, for our investments and borrowings:

no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;

no investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act; and

with the exception of real estate, no industry shall represent greater than 20% of the securities in our portfolio.

These investment guidelines may be changed by a majority of our board of directors without the approval of our stockholders.

As a result of our investment strategies and targeted asset classes, we acquire our investments primarily for income. We do not have a policy that requires us to focus our investments in one or more particular geographic areas.

**Table of Contents**

***Investment Sourcing.*** The Manager originates portfolio investments, other than equipment leases and notes and trust preferred securities, through a variety of financial industry sources including investment banks, brokerage firms, commercial banks and loan originators including Banc Investment Group, LLC, Barclays Capital Inc, Bear, Stearns International Limited, Citibank N.A., Credit Suisse Securities (USA) LLC, FIG Partners, LLC, Friedman, Billings, Ramsey & Co., Inc., Howe Barnes Investments, Inc., Keefe, Bruyette & Woods, Inc., Lehman Brothers Inc., Morgan Keegan & Co., Inc., Morgan Stanley & Co. Incorporated, RBS Greenwich Capital, Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC. The Manager bases its origination capability on relationships its investment professionals have developed with these sources over their professional careers, as well as upon its, Resource America's and our current presence in the marketplace as sponsor, originator, holder or acquiror of assets in our asset classes.

LEAF Financial is responsible for sourcing of our equipment lease investments. LEAF Financial's strategy for lease originations involves marketing to direct sales organizations which offer LEAF Financial's leases as part of their equipment marketing package. By developing and maintaining these programs, LEAF Financial is able to use the sales forces of these organizations, and those of their distributors, dealers and resellers, to market its leasing products and services to the highly dispersed population of small- to middle-sized businesses.

Our ability to source trust preferred investment opportunities comes from Resource America's relationships with the regional broker-dealer community that services smaller financial services companies. We also expect to source investments directly through our own relationships in the commercial banking sector.

***Credit and Risk Management Analysis.*** The backbone of the Manager's and Resource America's investment process is credit analysis and risk management. The Manager and Resource America focus their attention on credit and risk assessment from the earliest stage of its investment selection process. The Manager and Resource America also will screen and monitor all potential investments to determine their impact on maintaining our REIT qualification and our exclusion from regulation under the Investment Company Act. Risks related to portfolio management, including the management of risks related to credit losses, interest rate volatility, liquidity and counterparty credit, are generally managed on a portfolio-by-portfolio basis by each of Resource America's asset management divisions, although there is often interaction and cooperation between divisions in this process.

**Table of Contents**

The factors the Manager considers in its credit analysis process are shown below:

The Manager and Resource America use several proprietary risk management systems, including proprietary quantitative analytics, proprietary internal rating methodologies and investment committee processes, in determining investment and sale decisions. The Manager and Resource America conduct continuous ongoing surveillance of our portfolio and interacts with their affiliates on identifying and monitoring credit trends. In addition to these features, the investment managers will use a broad array of software and technology to manage risk. Key features of the risk management system include:

*PROTECT: Principal Recovery and Collateral Tracking.* PROTECT is a proprietary surveillance and risk management process developed by Resource America for the early identification of troubled and deteriorating securities in the ABS-RMBS, CMBS and other ABS sectors. Under the principal recovery portion of the process, PROTECT examines not only net loss rates, but also the composition of net loss rates, such as gross loss rates and recovery rates, in order to detect negative pool trends and/or accounting irregularities for securities held in the portfolio. PROTECT's collateral tracking methodology includes:

the monitoring of individual bond payments, prepayments, delinquencies, losses, subordination, excess spread and overcollateralization build-up;

portfolio impact stress-testing for changes in prepayment speeds, loss rates, and interest rate scenarios;

analysis of servicer's and loan originator's financial condition;

analysis of sector performance and vintage comparison;



**Table of Contents**

frequent marking to market of the portfolio; and

analysis of ratings events or downgrades.

*Proprietary Credit Stratifications.* Resource America has developed a set of proprietary credit stratifications to identify and measure the risks associated with potential ABS-RMBS, CMBS and other ABS investments. Data points for these stratifications include credit scores, LTV ratios, debt-to-income ratios, interest only loans, documentation type, mortgage insurance (where applicable), floating-rate/fixed-rate composition, credit enhancement and geographic dispersion. Stratifications are designed to focus on loans that are outside normal parameters, or outliers, as well as means and medians, in order to measure the dispersion of collateral.

*Proprietary Collateral Stresses.* The Manager and Resource America run proprietary collateral stresses to analyze the amount of structural protection associated with ABS-RMBS, CMBS and other ABS investments. Default assumptions are combined in the stress runs with

varying prepayment speeds on various collateral subgroups,

interest rate shocks,

varying recovery rates on defaulted loans, and

servicer advancement and timeliness

to determine how much cumulative loss the investment can withstand and still pay the contractual coupon and/or principal invested.

**Table of Contents**

*Technology and Software.* Resource America has built an extensive technology platform. This platform is critical to portfolio monitoring and credit analysis. The Manager and Resource America use the following software and technology in monitoring portfolios:

<b>Product</b>	<b>Function</b>	<b>Agency ABS- RMBS</b>	<b>ABS-RMBS</b>	<b>CMBS/ Whole loans/A and B notes/ mezzanine loans</b>	<b>Bank loans</b>	<b>ABS/ CDO</b>	<b>Trust preferred securities</b>	<b>Equipment leases and notes</b>
Derivative Solutions	Risk mgt/portfolio analytics	X	X			X	X	
Intex	Cash flows/static data/security analytics	X	X			X	X	
Bloomberg	Market data/collateral data/ security analytics	X	X	X	X	X		
Trepp	CMBS			X				
Moody's	Credit/surveillance		X	X	X	X		
Standard & Poors	Credit/surveillance		X	X	X	X		
Fitch	Credit/surveillance		X	X	X	X	X	
CoStar	Market data/collateral data/surveillance			X				
Claritas	Market data			X				
Smith Travel Research	Market data/collateral data/surveillance			X				
REIS	Market data/collateral data/surveillance			X				
Wall Street Office	Risk management/portfolio analytics					X		
Dun & Bradstreet	Credit/credit scoring							X
SNL Datasource	Financial institution regulatory and market data					X		
KMV Risk Calc	Credit					X		
Lease Tracking	App entry/credit/documentation							X
INFOLease	Asset tracking/invoicing, collections/lease accounting/ sales tax							X
CRM	Tracks all activity/usage levels for leasing vendors							X
Proprietary	Risk mgt/portfolio analytics	X	X	X	X	X		

**Our Financing Strategy**

*Overview.* We use leverage in order to increase potential returns to our stockholders and for financing our portfolio. We do not expect to speculate on changes in interest rates. However, our use of leverage may also have the effect of increasing losses when economic conditions are unfavorable. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage and our investment committee will have the discretion, without the need for further approval by our board of directors or our stockholders, to increase the amount of leverage we incur above our targeted range for individual asset classes. As of September 30, 2006, our leverage ratio was 9.2 times. Excluding borrowings repaid upon the settlement of our agency ABS-RMBS portfolio on October 2, 2006, our outstanding indebtedness was \$1.4 billion and our leverage ratio was 6.1 times. We typically accumulate investments in our warehouse facilities or through repurchase arrangements and, upon our acquisition of the assets in those facilities, refinance them with CDOs. We are not limited to CDOs for our refinancing needs, and may use other forms of term financing if we

## **Table of Contents**

believe that market conditions make it appropriate. While we may use other forms of term financing, such as long-term match funded financing provided through bank financing and asset-backed financing programs, we do not expect that they will be a material part of our financing structure.

***Warehouse facilities.*** We rely on warehouse credit facilities for the capital we need to accumulate our investments. These facilities are typically lines of credit from financial institutions that we can draw from to fund our investments. Warehouse lines are typically collateralized loans made to investors who invest in securities and loans that in turn pledge the resulting securities and loans to the lender. Third party custodians, usually large banks, typically hold the securities and loans funded with the warehouse facility borrowings, including the securities, loans, notes, mortgages and other important loan documentation, for the benefit of the lender who is deemed to own the securities and loans and, if there is a default under the warehouse line, for the benefit of the warehouse lender.

The pool of assets in a warehouse facility typically must meet specified requirements, including term, average life, investment rating, agency rating and sector diversity requirements. There are also specified requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs. Failure to comply with these requirements could result in either the need to post additional collateral or cancellation of the financing facility.

As of September 30, 2006, we had no outstanding warehouse facility balances.

***Repurchase agreements.*** We finance our whole loans, A notes, B notes and mezzanine loans through the use of repurchase agreements. These agreements allow us to borrow against whole loans, A notes, B notes and mezzanine loans we own. We sell our whole loans, A notes, B notes and mezzanine loans to a counterparty and agree to repurchase the same whole loans, A notes and B notes from the counterparty at a price equal to the original sale price plus an interest factor. We account for these agreements as debt, secured by the underlying assets. During the term of a repurchase agreement, we earn the principal and interest on the related whole loans, A notes, B notes and mezzanine loans and pay interest to the counterparty.

Our repurchase agreement counterparties are commercial and investment banks with whom we have agreements in place that cover the terms of our transactions. All our repurchase agreement counterparties have been formally approved by our investment committee and are monitored for changes in their financial condition.

As of September 30, 2006, we were party to repurchase agreements with ten counterparties. As of September 30, 2006, we had \$770.2 million outstanding with four of these counterparties. Of this amount, \$716.5 million was repaid in connection with the settlement of our agency ABS-RMBS on October 2, 2006. For a description of the terms of our repurchase agreements, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

***Term financing CDOs.*** We expect to finance our ABS-RMBS, CMBS, other ABS, whole loans, A notes, B notes, mezzanine loans and commercial finance assets through term match funding strategies and, in particular, through the use of CDOs. We describe the general structure of a CDO in Investment Strategy Collateralized Debt Obligations.

Unlike typical securitization structures, the underlying assets in a CDO pool may be sold, subject to certain limitations, without a corresponding pay-down of the CDO provided the proceeds are reinvested in qualifying assets. As a result, CDOs enable the sponsor to actively manage the pool of assets. We believe CDO financing structures may be an appropriate financing vehicle for our targeted asset classes (other than any agency ABS-RMBS in which we may invest in the future) because they will enable us to lock in our cost of funds on a long-term basis and minimize the risk that we will have to refinance our liabilities before our investments mature or reprice, while giving us the flexibility to manage credit risk and, subject to certain limitations, to take advantage of profit opportunities.

---

**Table of Contents**

As of September 30, 2006, we had closed four CDO financings in the aggregate amount of approximately \$1.4 billion as follows:

In August 2006, we closed our first commercial real estate loan CDO, Resource Real Estate Funding CDO 2006-1, a \$345.0 million CDO transaction. The CDO's commercial real estate loan assets collateralized \$308.7 million of senior notes issued by it. We purchased 100% of the equity for \$36.3 million as well as 100% of the class J senior notes (rated BB: Moody's) and class K senior notes (rated B: Moody's) for \$43.1 million. The senior notes we purchased are subordinated in right of payment to all other senior notes issued by Resource Real Estate Funding CDO 2006-1 but are senior in right of payment to the equity. The equity interest is subordinated in right of payment to all other securities issued by Resource Real Estate Funding CDO 2006-1.

In May 2006, we closed Apidos CDO III, a \$285.5 million CDO transaction. The CDO's bank loan assets collateralized \$262.5 million of senior notes issued by it. We purchased 100% of the equity of Apidos CDO III for \$23.0 million. The equity interest is subordinated in right of payment to all other securities issued by the CDO.

In August 2005, we closed Apidos CDO I, a \$350.0 million CDO transaction. The CDO's bank loan assets collateralized \$321.5 million of senior notes issued by it. We purchased 100% of the equity for \$28.5 million. The equity interest is subordinated in right of payment to all other securities issued by the CDO.

In July 2005, we closed Ischus CDO II, a \$403.0 million CDO transaction. The CDO's of MBS and other ABS assets collateralized \$376.0 million of senior notes issued by it. We purchased 100% of the equity for \$27.0 million. The equity interest is subordinated in right of payment to all other securities issued by the CDO.

***Hedging and interest rate risk management strategy.*** Repurchase agreements generally have maturities of 30 to 90 days while the weighted average life of the ABS-RMBS we will own generally will be longer. The difference in maturities, in addition to reset dates and reference indices, creates potential interest rate risk.

We may from time to time use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. Under the federal income tax laws applicable to REITs, we generally will be able to enter into certain transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, provided that our total gross income from such hedges and other non-qualifying sources must not exceed 25% of our total gross income.

We intend to engage in a variety of interest rate management techniques that seek to mitigate changes in interest rates or potentially other influences on the values of our assets. Because of the tax rules applicable to REITs, we may be required to implement some of these techniques through a TRS that is fully subject to corporate income taxation. Our interest rate management techniques may include:

puts and calls on securities or indices of securities;

interest rate swaps, including options and forward contracts;

interest rate caps, including options and forward contracts;

interest rate collars, including options and forward contracts; and

interest rate lock agreements, principally Treasury Lock agreements.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

These techniques may also be used in an attempt to protect us against declines in the market value of our assets that result from general trends in debt markets.

We may from time to time enter into interest rate swap agreements to offset the potential adverse effects of rising interest rates under short-term repurchase agreements. Interest rate swap agreements have historically been

## **Table of Contents**

structured such that the party seeking the hedge protection receives payments based on a variable interest rate and makes payments based on a fixed interest rate. The variable interest rate on which payments are received is calculated based on various reset mechanisms for LIBOR. The repurchase agreements generally have maturities of 30 to 90 days and carry interest rates that correspond to LIBOR rates for those same periods. The swap agreements will effectively fix our borrowing cost and will not be held for speculative or trading purposes.

As of September 30, 2006, we had entered into one interest rate swap agreement with AIG Financial Products, Corp. whereby we swap a floating rate of interest in the liability we are hedging for a fixed rate of interest, and one interest rate cap whereby we reduce our exposure to the variability of future cash flows attributable to changes in LIBOR. The notional amount of these agreements were \$13.2 million and \$15.0 million, respectively. The fixed rate we paid on our interest rate swap was 4.49% as of September 30, 2006.

As of September 30, 2006, we had entered into nine amortizing interest rate swap agreements with Bayerische Hypo-und Vereinsbank AG, New York Branch (HVB) whereby we swap a floating rate of interest in the liability we are hedging for a fixed rate of interest. The notional amount of these agreements were \$84.5 million. The weighted average fixed rate we paid on our interest rate swap was 5.35% as of September 30, 2006.

Interest rate management techniques do not eliminate interest rate risk but, rather, seek to mitigate it. See **Risk Factors Risks Related to Our Investments** Our hedging transactions may not completely insulate us from interest rate risk and may result in poorer overall investment performance than if we had not engaged in any hedging transactions and We may enter into hedging instruments that could expose us to unexpected losses in the future.

## **Competition**

Our net income depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring real estate-related assets, we compete with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities. In addition, there are numerous MBS and other mortgage REITs with similar asset acquisition objectives, and others may be organized in the future. The effect of the existence of additional REITs may be to increase competition for the available supply of mortgage assets suitable for purchase. Many of our competitors are significantly larger than us, have access to greater capital and other resources and may have other advantages over us. In addition to existing companies, other companies may be organized for similar purposes, including companies organized as REITs focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of our common stock. Moreover, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. For additional information concerning the competitive risks we face, see **Risk Factors Risks Related to Our Business** We operate in a highly competitive market for investment opportunities, which may result in higher prices, lower yields and a narrower net interest spread for our investments, and may inhibit the growth or delay the diversification of our portfolio.

## **Our Formation and Structure**

We were organized on January 31, 2005 as a Maryland corporation. We completed a private offering of common stock in March 2005 and our initial public offering of common stock in February 2006. Resource America, the corporate parent of the Manager, and entities affiliated with it purchased an aggregate of 1,900,000 shares of our common stock in the two offerings. 1,800,000 of the shares purchased by Resource America are held by Resource Capital Investor, a wholly owned subsidiary of Resource America. The remaining 100,000 shares purchased by Resource America are held by the Manager. We granted to the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 per

---

**Table of Contents**

share, of which 344,079 shares of restricted stock and 649,500 options to purchase shares of our common stock were allocated to persons who are directors, officers and employees of the Manager or of Resource America providing services through the Manager.

On January 13, 2006, we paid a special dividend to our stockholders of record on January 4, 2006, including holders of restricted stock, consisting of warrants to purchase our common stock. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$15.00 per share. Stockholders received one warrant for each ten shares of common stock held. If an existing stockholder owned shares in other than a ten-share increment, the stockholder received an additional warrant. The warrants will expire on January 13, 2009 and will not be exercisable until January 13, 2007. An aggregate of 1,568,244 shares will be issuable upon exercise of the warrants.

Pursuant to the management agreement by and among us, the Manager and Resource America, we paid to the Manager 14,076 common shares as of September 30, 2006. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2005 and nine months ended September 30, 2006. As of September 30, 2006, Resource America, the Manager and their affiliates, including our officers and directors, collectively owned 2,702,200 shares of our common stock, representing 13.5% of our outstanding shares of common stock, and had warrants and options to purchase an additional 814,371 shares of our common stock representing an additional 4.1% of our outstanding shares of common stock, in each case assuming all warrants and options are exercised.

Our investment activities are managed by the Manager and, through it, by Resource America, which we consider to be our promoters, and are supervised by our investment committee and board of directors. Edward E. Cohen, the Chairman of Resource America and the Manager, and Jonathan Z. Cohen, the Chief Executive Officer and President of Resource America and the Manager, hold the same positions with us.

**Our Corporate Information**

Our principal office is located at 712 Fifth Avenue, 10<sup>th</sup> Floor, New York, New York 10019. Our website is located at [www.resourcecapitalcorp.com](http://www.resourcecapitalcorp.com). The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the SEC.

**Exclusion from Regulation under the Investment Company Act**

We intend to operate our business so as to be excluded from regulation under the Investment Company Act. Because we conduct our business through wholly-owned subsidiaries, we must ensure not only that we qualify for an exclusion from regulation under the Investment Company Act, but also that each of our subsidiaries so qualifies.

We believe that RCC Real Estate, the subsidiary that as of September 30, 2006 held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, which we refer to as qualifying real estate assets. Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued, and does not intend to issue, redeemable securities.

We consider whole pool certificates to be qualifying real estate assets. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a

**Table of Contents**

certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a qualifying real estate asset for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test.

We treat our investments in whole loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. We do not expect that investments in non-whole pool loans, CDOs, other ABS, bank loans, equipment leases and notes, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

To the extent RCC Real Estate holds its commercial real estate loan assets through wholly-owned CDO subsidiaries, RCC Real Estate also intends to conduct its operations so that it will not come within the definition of an investment company set forth in Section 3(a)(1)(C) of the Investment Company Act because it complies with the 40% test. Investment securities exclude U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Certain of the wholly-owned CDO subsidiaries of RCC Real Estate intend to rely on Section 3(c)(5)(C) for their Investment Company Act exemption, with the result that RCC Real Estate's interest in the CDO subsidiaries would not constitute investment securities for the purpose of the 40% test.

We do not expect that our other subsidiaries, RCC Commercial, Inc. and Resource TRS, will qualify for the Section 3(c)(5)(C) exclusion. However, we do expect them to qualify for another exclusion under either Section 3(c)(1) or 3(c)(7). As required by these exclusions, we will not allow either entity to make, or propose to make, a public offering of its securities, and we will require that each owner of securities issued by those entities be a qualified purchaser so that those entities are not investment companies subject to regulation under the Investment Company Act. If we form other subsidiaries, we must ensure that they qualify for an exemption or exclusion from regulation under the Investment Company Act.

Moreover, we must ensure that Resource Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We will do so by monitoring the value of our interests in our subsidiaries. At all times, we must ensure that Resource Capital Corp. meets the 40% test. Our interest in RCC Real Estate does not constitute an investment security for purposes of the 40% test, but our interests in RCC Commercial does,



## **Table of Contents**

and our interest in Resource TRS may in the future, constitute investment securities. Accordingly, we must monitor the value of our interest in these two subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets. We will monitor the value of our interest in Resource TRS for tax purposes as well; the applicable tax rules require us to ensure that the total value of the stock and other securities of Resource TRS and any other TRS held directly or indirectly by us does not exceed 20% of the value of our total assets. These requirements may limit our flexibility in acquiring assets in the future.

We have not received, nor have we sought, a no-action letter from the SEC regarding how our investment strategy fits within the exclusions from regulation under the Investment Company Act that we and our subsidiaries are using. To the extent that the SEC provides more specific or different guidance regarding the treatment of assets as qualifying real estate assets or real estate-related assets, we may have to adjust our investment strategy accordingly. Any additional guidance from the SEC could provide additional flexibility to us or it could further inhibit our ability to pursue the investment strategy we have chosen.

### **Policies with Respect to Certain Other Activities**

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities or the retention of cash flow (subject to provisions in the Internal Revenue Code concerning distribution requirements and the taxability of undistributed REIT taxable income) or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time.

We have not in the past but may in the future offer equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares and may engage in such activities in the future. As described above under Our Financing Strategy, we intend to borrow money in the ordinary course of business.

We have not in the past but may in the future, subject to gross income and asset tests necessary for REIT qualification, invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers. We may make such investments for the purpose of exercising control over such entities.

We engage in the purchase and sale of investments. We have not in the past but may in the future make loans to third parties in the ordinary course of business for investment purposes. We will not underwrite the securities of other issuers.

We intend to furnish our stockholders with annual reports containing consolidated financial statements audited by our independent certified public accountants and with quarterly reports containing unaudited consolidated financial statements for each of the first three quarters of each fiscal year.

Our board of directors may change any of these policies without prior notice to you or a vote of our stockholders.

### **Legal Proceedings**

We and the Manager are not subject to any material legal proceedings as of the date of this prospectus.

**Table of Contents****MANAGEMENT****Directors and Executive Officers**

The following table sets forth information regarding our directors and executive officers. All of our executive officers are employees of Resource America. Neither we nor the Manager expect that we will have any employees and, with the exception of our chief financial officer, our executive officers are not exclusively dedicated to our operations. Our board of directors has determined that Messrs. Beach, Hart, Levin and Neff are independent consistent with the rules of the New York Stock Exchange.

<b>Name</b>	<b>Age</b>	<b>Title</b>
Edward E. Cohen	67	Chairman and Director
Jonathan Z. Cohen	36	Chief Executive Officer, President and Director
Walter T. Beach	40	Director
William B. Hart	63	Director
Murray S. Levin	63	Director
P. Sherrill Neff	54	Director
David J. Bryant	48	Chief Financial Officer, Chief Accounting Officer and Treasurer
Jeffrey D. Blomstrom	37	Senior Vice President CDO Structuring
Steven J. Kessler	63	Senior Vice President Finance
David E. Bloom	42	Senior Vice President Real Estate Investments

**Edward E. Cohen** has been our Chairman since March 2005. Mr. Cohen is Chairman of Resource America, a position he has held since 1990. He was Resource America's Chief Executive Officer from 1988 to 2004 and its President from 2000 to 2003. He is Chairman, Chief Executive Officer and President of Atlas America, Inc., a publicly traded (NASDAQ: ATLS) energy company, a position he has held since 2000, Chairman and Chief Executive Officer of Atlas Pipeline Holdings GP, LLC, a wholly-owned subsidiary of Atlas America that is the general partner of Atlas Pipeline Holdings, L.P., a publicly traded (NYSE: AHD) holding company, a position he has held since 2006, and Chairman of the Managing Board of Atlas Pipeline Partners GP, LLC, a wholly-owned subsidiary of Atlas America that is the general partner of Atlas Pipeline Partners, L.P., a publicly-traded (NYSE: APL) natural gas pipeline company. He is also a director of TRM Corporation, a publicly traded (NASDAQ: TRMM) consumer services company, and Chairman of Brandywine Construction & Management, Inc., a privately-held real estate management company. From 1981 to 1999 he was Chairman of the Executive Committee of JeffBanks, Inc., a bank holding company acquired by Hudson United Bancorporation. From 1969 to 1989 he was Chairman of the Executive Committee of State National Bank of Maryland (now a part of Wachovia Bank). Mr. Cohen is the father of Jonathan Z. Cohen.

**Jonathan Z. Cohen** has been our Chief Executive Officer and President and a director since March 2005. Mr. Cohen has been President since 2003, Chief Executive Officer since 2004 and a Director since 2002 of Resource America. He was Executive Vice President of Resource America from 2001 to 2003, and a Senior Vice President from 1999 to 2001. He has been Vice Chairman of the Managing Board of Atlas Pipeline Partners GP since its formation in 1999, Vice Chairman of Atlas America since 2000 and Vice Chairman of Atlas Pipeline Holdings GP since 2006. He has been the Vice Chairman of RAIT Investment Trust, a publicly traded (NYSE: RAS) REIT, since 2003, and Secretary, trustee and member of RAIT's investment committee since its formation in 1997. Since 2003 he has been the general partner of Castine Partners, L.P., a financial services hedge fund. Mr. Cohen is a son of Edward E. Cohen.

**Walter T. Beach** has been a director since March 2005. Mr. Beach has been Managing Director of Beach Investment Counsel, Inc., an investment management firm, since 1997. From 1993 to 1997, Mr. Beach was a Senior Analyst and Director of Research at Widmann, Siff and Co., Inc., an investment management firm where, beginning in 1994, he was responsible for the firm's investment decisions for its principal equity product. Before that he was an associate and financial analyst at Essex Financial Group, a consulting and merchant banking firm,

**Table of Contents**

and an analyst at Industry Analysis Group, an industry and economic consulting firm. Mr. Beach has served as a director of The Bancorp, Inc., a Delaware bank holding company, and its subsidiary bank, The Bancorp Bank, since 1999.

**William B. Hart** has been a director since March 2005. Mr. Hart was Chairman of the Board of Trustees of the National Trust for Historic Preservation from 1999 to 2004. He was also a director of Anthem, Inc. (now Wellpoint, Inc.), a publicly-held health insurance company, from 2000 to 2004. Mr. Hart was Director of SIS Bancorp (now Banknorth Massachusetts, a division of Banknorth, N.A.) from 1995 to 2000. From 1988 to 1999, Mr. Hart served in various positions with Blue Cross/Blue Shield of New Hampshire, ending as Chairman of the Audit Committee and Chairman of the Board of Directors from 1996 to 1999. He also served as President of the Foundation for the National Capital Region, Washington, DC, from 1993 to 1996 and President of The Dunfey Group, a private investment firm, from 1986 to 1998. From 1986 to 1994 he was also director of First NH Banks where he was Chairman of the Audit Committee from 1992 to 1994.

**Murray S. Levin** has been a director since March 2005. Mr. Levin is a senior litigation partner at Pepper Hamilton LLP, a law firm with which he has been associated since 1970. Mr. Levin served as the first American president of the Association Internationale des Jeunes Avocats (Young Lawyers International Association), headquartered in Western Europe. He is a past president of the American Chapter and a member of the board of directors of the Union Internationale des Avocats (International Association of Lawyers), a Paris-based organization that is the world's oldest international lawyers association. Mr. Levin was a member of the managing board of Atlas Pipeline Partners GP from 2001 to March 2005.

**P. Sherrill Neff** has been a director since March 2005. Mr. Neff is a founder of Quaker BioVentures, Inc., a life sciences venture fund, and has been Managing Partner since 2002. He was a director of Resource America from 1998 to March 2005. From 1994 to 2002 he was President and Chief Financial Officer, and from 1994 to 2003, a director of Neose Technologies, Inc., a publicly-traded life sciences company. Mr. Neff was also a director of The Bancorp from its formation in 1999 until 2002.

**David J. Bryant** has been our Chief Financial Officer, Chief Accounting Officer and Treasurer since June 2006. From 2005 to 2006 Mr. Bryant served as Senior Vice-President, Real Estate Services, at Pennsylvania Real Estate Investment Trust (NYSE: PEI), a REIT principally engaged in owning, managing, developing and leasing malls and strip centers in the eastern United States. Prior to that, from 2000 to 2005, Mr. Bryant served as PEI's Senior Vice President Finance and Treasurer, and was its principal accounting officer.

**Jeffrey D. Blomstrom** has been our Senior Vice President CDO structuring since March 2005. Mr. Blomstrom has been President and Managing Director of Resource Financial Fund Management, Inc., a subsidiary of Resource America since 2003. Mr. Blomstrom also currently serves as the head of collateral origination and as a member of the credit committee for Trapeza. From 2001 to 2003 Mr. Blomstrom was a Managing Director at Cohen Brothers and Company, a Philadelphia-based investment bank specializing in the financial services sector. From 2000 to 2001 he was Senior Vice President of iATMglobal.net, Inc., an ATM software development company. Mr. Blomstrom was, from 1999 to 2000, an associate at Covington & Burling, a law firm, where he focused on mergers and acquisitions and corporate governance.

**Steven J. Kessler** has been our Senior Vice President Finance since September 2005 and, before that, served as our Chief Financial Officer, Chief Accounting Officer and Treasurer from March 2005. Mr. Kessler has been Executive Vice President since 2005 and Chief Financial Officer since 1997 and was Senior Vice President from 1997 to 2005 of Resource America. He was Vice President Finance and Acquisitions at Kravco Company, a national shopping center developer and operator, from 1994 to 1997. He has been a Trustee of GMH Communities Trust, a publicly traded specialty housing REIT, since 2004. From 1983 to 1993 he was employed by Strouse Greenberg & Co., a regional full service real estate company, ending as Chief Financial Officer and Chief Operating Officer. Before that, he was a partner at Touche Ross & Co. (now Deloitte & Touche LLP), independent public accountants.

---

**Table of Contents**

**David E. Bloom** has been our Senior Vice President Real Estate Investments since March 2005. Mr. Bloom has been Senior Vice President of Resource America since 2001. He has also been President of Resource Real Estate since 2004 and President of Resource Capital Partners from 2002 to 2006. From 2001 to 2002 he was President of Resource Properties. Before that he was Senior Vice President at Colony Capital, LLC, an international real estate opportunity fund, from 1999 to 2001. From 1998 to 1999 he was Director at Sonnenblick-Goldman Company, a real estate investment bank. From 1995 to 1998 he was an attorney at the law firm of Willkie Farr & Gallagher, LLP.

**Other Significant Personnel**

**Christopher D. Allen**, 36, has been our Senior Vice President Commercial Lending since March 2005. Mr. Allen has been a Managing Director of Resource Financial Fund Management since 2003. At Resource Financial Fund Management, Mr. Allen is in charge of identifying, implementing and overseeing new CDO products. He is a member of the investment committee of Ischus and is also a member of the investment committee of Apidos where he serves as the Chief Operating Officer and Director of Product Management. Before joining Resource Financial Fund Management, from 2002 to 2003 he was a Vice President at Trenwith Securities, the investment banking arm of BDO Seidman, LLP, where he was in charge of corporate finance, mergers and acquisitions and restructuring transactions. From 1994 to 1997 he was an Associate with Citicorp Venture Capital working on leveraged buyout and recapitalization transactions.

**Gretchen L. Bergstresser**, 43, has been our Senior Vice President Bank Loans since March 2005. Ms. Bergstresser has been the President and Senior Portfolio Manager of Apidos since 2005. Before joining Apidos, from 2003 to 2005 she was the Managing Director and Portfolio Manager of MJX Asset Management, a greater than \$1.5 billion boutique asset management firm managing leveraged loans across five structured vehicles. From 1996 to 2003 Ms. Bergstresser was CDO Portfolio Manager and Head Par Loan Trader at Eaton Vance Management, an investment management company. From 1995 to 1996 she was a Vice President in the Diversified Finance Division of Bank of Boston. From 1991 to 1995 she was a Vice President at ING (U.S.), Capital Markets, an investment banking firm.

**John R. Boyt**, 32, has been our Vice President Director of Loan Originations since January 2006. He has also been Senior Vice President of Resource Real Estate, Inc., a wholly-owned subsidiary of Resource America, since 2005. From 2004 to 2005 he was a principal of Structured Property Advisors, LLC, a CMBS investment advisory firm. From 1998 to 2004 he was an Associate Director of Bear, Stearns & Co. Inc., where he was a senior member of the commercial mortgage group involved in loan origination, underwriting, and CMBS sales. Before that, from 1997 to 1998, Mr. Boyt worked for Bankers Trust Company within their mortgage backed securities services unit, focusing on MBS and whole loan sales.

**Crit DeMent**, 53, has been our Senior Vice President Equipment Leasing since March 2005. Mr. DeMent has been Chairman and Chief Executive Officer of LEAF Financial Corporation since 2001. Mr. DeMent was Chairman and Chief Executive Officer of its subsidiary, LEAF Asset Management, Inc., from 2002 until 2004. From 2000 to 2001 he was President of the Small Ticket Group, an equipment leasing division of European American Bank. Before that, he was President and Chief Operating Officer of Fidelity Leasing, Inc., then the equipment leasing subsidiary of Resource America, and its successor, the Technology Finance Group of CitiCapital Vendor Finance from 1996 to 2000. From 1987 to 1996 he was Vice President of Marketing for Tokai Financial Services, an equipment leasing firm.

**Thomas C. Elliott**, 33, has been our Senior Vice President Finance and Operations since September 2006 and, prior to that, was our Chief Financial Officer, Chief Accounting Officer and Treasurer from September 2005 to June 2006. He was Senior Vice President Assets and Liabilities Management from June 2005 until September 2005 and, before that, served as Vice President Finance from March 2005. Mr. Elliott has been Senior Vice President Finance and Operations since 2006; was Senior Vice President since 2005 and was Vice President Finance from 2001 to 2005 of Resource America. He has also been Chief Financial Officer of

---

**Table of Contents**

Resource Financial Fund Management since 2004. From 1997 to 2001 Mr. Elliott was a Vice President at Fidelity Leasing, where he managed all capital market functions, including the negotiation of all securitizations and credit and banking facilities in the U.S. and Canada. Mr. Elliott also oversaw the financial controls and budgeting departments.

**Alan F. Feldman**, 43, has been our Senior Vice President Real Estate Investments since March 2005. Mr. Feldman has been Chief Executive Officer of Resource Real Estate since 2004 and Senior Vice President of Resource America since 2002. Mr. Feldman was President of Resource Properties from 2002 to 2005. From 1998 to 2002, Mr. Feldman was Vice President at Lazard Freres & Co., an investment banking firm, specializing in real estate mergers and acquisitions, asset and portfolio sales and recapitalization. From 1992 through 1998, Mr. Feldman was Executive Vice President of PREIT-RUBIN, Inc. the management subsidiary of Pennsylvania Real Estate Investment Trust, a publicly-traded REIT, and its predecessor, The Rubin Organization. Before that, from 1990 to 1992 he was a Director at Strouse, Greenberg & Co., a regional full service real estate company.

**Kevin M. Finkel**, 35, has been our Vice President Real Estate Investments since January 2006. He has also been employed by Resource Capital Partners, Inc. since 2002, and has been its Vice President and Director of Acquisitions from 2003 to 2006 and President since 2006. Mr. Finkel has also been with Resource Real Estate since 2004, and is currently its Senior Vice President and Director of Acquisitions. In 2000, Mr. Finkel was an Associate at Lehman Brothers, a global investment banking firm. From 1998 to 1999, Mr. Finkel was an Associate at Barclays Capital, the investment banking division of Barclays Bank PLC. From 1994 to 1998, Mr. Finkel was an investment banker at Deutsche Bank Securities, the investment banking division of Deutsche Bank AG.

**Kyle Geoghegan**, 38, has been a Managing Director of Resource Real Estate Funding, Inc. since July 2006. Mr. Geoghegan co-manages the whole loan origination platform for Resource Real Estate Funding and is based in Los Angeles. Mr. Geoghegan worked at Bear Stearns from January 1998 to May 2006, serving as a Managing Director who co-managed the Bear Stearns Commercial Mortgage office in Los Angeles which originated over \$1 billion of loans annually. Prior to joining Bear Stearns, Mr. Geoghegan spent four years as a real estate loan officer at PNC Bank in Philadelphia, PA, primarily originating construction and bridge loans.

**Darryl Myrose**, 33, has been a Managing Director of Resource Real Estate Funding since July 2006. Mr. Myrose co-manages the whole loan origination platform for Resource Real Estate Funding and is based in Los Angeles. Mr. Myrose worked at Bear Stearns from April 1996 to May 2006, serving as a Managing Director who co-managed the Bear Stearns Commercial Mortgage office in Los Angeles which originated over \$1 billion of loans annually. Prior to joining Bear Stearns, Mr. Myrose was employed with Clarion Advisors (formerly Jones Lang Wootton Realty Advisors) where he was an asset management analyst.

**Andrew P. Shook**, 36, has been our Senior Vice President ABS-RMBS and CMBS since March 2005. Mr. Shook has been the President, Chief Investment Officer and Senior Portfolio Manager of Ischus since 2004. In 2001 Mr. Shook founded and ran HSBC Bank USA's structured finance credit arbitrage book until 2004. Before that, Mr. Shook worked domestically and in London for Bank of America from 1996 to 2001. From 1994 to 1996 he was a Senior Securities Analyst at Hyperion Capital Management, a commercial and residential mortgage related fixed income investment advisor.

**Victor Wang**, 44, has been our Vice President Director of Asset Management since January 2006. He has also been Vice President Director of Asset Management of Resource Real Estate since 2002. From 2000 to 2002, Mr. Wang was Vice President, Financing and Dispositions at Sonnenblick-Goldman Company, a real estate investment banking firm. From 1998 to 1999, Mr. Wang was a Senior Asset Manager at NorthStar Presidio Management Company, an asset management arm of Northstar Capital Investment Corp. Before that, from 1994 to 1998, Mr. Wang was an Asset Manager and Senior Analyst at Newkirk and Odin Management Companies, an asset management company specializing in the management of highly leveraged net lease and operating real estate.

**Michael S. Yecies**, 39, has been our Chief Legal Officer and Secretary since March 2005. Mr. Yecies has been Senior Vice President of Resource America since 2005 and Chief Legal Officer and Secretary since 1998. From 1994 to 1998 he was an attorney at the law firm of Duane Morris LLP.

## **Table of Contents**

### **Investment Committee**

The role of our investment committee is to review and approve our investment policies, and review and approve our investment portfolio holdings and related compliance with our investment policies. The investment committee will meet at least weekly. The members of our investment committee are Messrs. J. Cohen, E. Cohen, Allen, Blomstrom, Bloom, Feldman, Shook and DeMent and Ms. Bergstresser. For biographical information regarding members of our investment committee please see [Directors and Executive Officers](#) and [Other Significant Personnel](#).

### **Board Committees**

Our board of directors has three standing committees, consisting solely of independent directors: the audit committee, the compensation committee, and the nominating and corporate governance committee. We set forth below the committees on which directors serve, the chairman of each committee and a description of the functions of each committee.

*Audit Committee.* Our audit committee consists of Mr. Neff, chairman, and Messrs. Beach and Hart. Our board of directors has determined that all the members of the audit committee satisfy the independence requirements of the New York Stock Exchange and the SEC, and that Messrs. Beach and Neff are audit committee financial experts.

Our audit committee operates pursuant to a written charter adopted by our board of directors. Among other things, the audit committee charter calls upon the audit committee to oversee:

our accounting and financial reporting processes;

the integrity and audits of our consolidated financial statements;

our compliance with legal and regulatory requirements;

the qualifications and independence of our independent auditors; and

the performance of our independent auditors and any internal auditors.

The audit committee is also responsible for engaging independent registered public accountants, reviewing with the independent public accountants the plans and results of the audit engagement, approving professional services provided by the independent public accountants, reviewing the adequacy of our internal accounting controls and considering the range of audit and non-audit fees.

*Compensation Committee.* Our compensation committee consists of Mr. Beach, chairman, and Messrs. Levin and Neff. Our board of directors has determined that all members of the compensation committee qualify as independent directors under the New York Stock Exchange independence standards. The principal functions of the compensation committee are to:

review the compensation payable to our officers and directors;

review the compensation and fees payable to the Manager under our management agreement; and

## Edgar Filing: Resource Capital Corp. - Form S-11/A

administer the issuance of any stock issued to our employees or the employees of the Manager or Resource America who perform services for us.

*Nominating and Corporate Governance.* Our nominating and governance committee consists of Mr. Levin, as chairman, and Messrs. Beach and Hart. The committee is responsible for seeking, considering and recommending to our full board of directors qualified candidates for election as directors and recommending a slate of nominees for election as directors at the annual meeting of stockholders. It also periodically prepares and submits to our board for adoption the committee's selection criteria for director nominees. It reviews and makes recommendations on matters involving the general operation of our board and our corporate governance, and annually recommends to our board nominees for each committee of the board.

## **Table of Contents**

*Code of Business Conduct and Ethics.* Our board of directors has established a code of business conduct and ethics that applies to our officers, directors and employees and to the Manager s or Resource America s officers, directors and employees when such individuals are acting for or on our behalf. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the code to appropriate persons identified in the code; and

accountability for adherence to the code.

Any waiver of the code of business conduct and ethics for our executive officers or directors may be made only by our board of directors or our audit committee and will be promptly disclosed as required by law or stock exchange regulations.

## **Director Compensation**

Any member of our board of directors who is also an employee of the Manager or Resource America does not receive additional compensation for serving on our board of directors. Each other director receives an annual retainer of \$35,000. In addition, we grant each director who is not an employee of the Manager or Resource America stock awards under our stock incentive plan equal to \$15,000 divided by the fair market value of our common stock on the date of grant for each year of service on our board. The stock awards will vest one year after the date of grant. As of September 30, 2006, we have issued a total of 8,224 shares of our common stock to our non-employee directors. We also reimburse our directors for their travel expenses incurred in connection with their attendance at board and committee meetings.

## **Executive Compensation**

We have not paid, and we do not intend to pay, any annual cash compensation to our executive officers for their services as executive officers. Our executive officers will be compensated by the Manager from the income it receives under our management agreement.

## **2005 Stock Incentive Plan**

We have established the 2005 stock incentive plan for the purpose of attracting and retaining our executive officers, directors and other persons and entities that provide services to us, including portfolio managers and other employees of the Manager and Resource America. The stock incentive plan authorizes the issuance of options to purchase common stock and the grant of stock awards, performance shares and stock appreciation rights. Up to 1,533,333 shares of common stock were originally available for issuance under the stock incentive plan and 328,443 remain available for issuance, subject to a contingent agreement with employees of Resource Real Estate to issue 100,000 shares of restricted stock and options to purchase 100,000 shares of common stock upon achievement of certain performance goals described below. Administration of the stock incentive plan is carried out by the compensation committee of our board of directors. The compensation committee or our board of directors may delegate its authority under the stock incentive plan to one or more officers but it may not delegate its authority with respect to awards to individuals subject to Section 16 of the Securities Exchange Act of 1934. As used in this summary, the term administrator means the compensation committee or the board of directors and its delegate.

The stock incentive plan provides for the grant of both options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code and options that are not intended to so qualify. The principal difference between incentive stock options and other options is that a participant generally will not recognize ordinary income at the time an incentive stock option is granted or exercised, but rather at the time the participant disposes of the shares acquired under the incentive stock option. In contrast, the exercise of an option that is not an incentive stock



## Edgar Filing: Resource Capital Corp. - Form S-11/A

option generally is a taxable event that requires the participant to recognize ordinary income equal to the difference between the shares' fair market value and the option price. The employer will not be entitled to a federal income tax deduction with respect to incentive stock options except in the case of certain

## Table of Contents

dispositions of shares acquired under the options. The employer may claim a federal income tax deduction on account of the exercise of an option that is not an incentive stock option equal to the amount of ordinary income recognized by the participant.

Except for stock awards made to our independent directors, the administrator will select the participants who are granted options and, consistent with the terms of the stock incentive plan, will prescribe the terms of each option. The option price cannot be less than the shares' fair market value on the date the option is granted. Except for adjustments on account of stock dividends, stock splits and similar events described above, the option price of an outstanding option cannot be reduced without the approval of our stockholders. The option price may be paid in cash or, with the administrator's consent, by surrendering shares of common stock, or a combination of cash and common stock. Options may be exercised in accordance with requirements set by the administrator. The maximum period in which an option may be exercised will be fixed by the administrator but cannot exceed ten years. Options generally will be nontransferable except in the event of the participant's death but the administrator may allow the transfer of options to members of the participant's immediate family, a family trust or a family partnership. No participant may be granted incentive stock options that are first exercisable in a calendar year for common stock having a total fair market value, determined as of the option grant, exceeding \$100,000.

The administrator also will select the participants who are granted stock awards and, consistent with the terms of the stock incentive plan, will establish the terms of each stock award. A stock award may be subject to vesting requirements or transfer restrictions or both as determined by the administrator. Those conditions may include, for example, a requirement that the participant complete a specified period of service or that certain objectives be achieved. The objectives may be based on performance goals that are stated with reference to funds from operations or funds from operations per share, return on equity, total earnings, earnings per share, earnings growth, return on capital, fair market value of the common stock, appreciation in value of the common stock, peer stockholder returns or other financial or operational measures that the administrator may designate. Before vesting of the award, the participant will have all the rights of a stockholder, including the right to receive distributions and vote the shares, but we will retain custody of the certificates evidencing the shares granted under the award and the participant will not be able to sell, transfer or pledge the shares. Each of our non-employee directors will be granted stock awards for stock equal to \$15,000 divided by the fair market value of our common stock on the date of grant for each year of service on our board. The stock awards will vest one year after the date of grant.

The stock incentive plan also authorizes the grant of performance shares, which are the right to receive a future payment, based on the value of the common stock, if certain conditions are met. The administrator will select the participants who are granted performance share awards and will establish the terms of each award. To the extent that a performance award is earned, it may be settled in cash, by the issuance of common stock or a combination of cash and common stock.

The administrator also will select the participants who receive stock appreciation rights under the stock incentive plan. A stock appreciation right entitles the participant to receive a payment of up to the amount by which the fair market value of a share of common stock on the date of exercise exceeds the fair market value of a share of common stock on the date the stock appreciation right was granted. A stock appreciation right will be exercisable at such times and subject to such conditions as may be established by the administrator. The amount payable upon the exercise of a stock appreciation right may be settled in cash, by the issuance of common stock or a combination of cash and common stock.

The stock incentive plan provides that outstanding awards will be exercisable, vested or earned upon a change in control, as defined in the plan. The stock incentive plan also provides that the benefits or amounts payable under awards will be reduced to avoid the parachute payment excise tax unless the participant will receive greater after-tax benefits by receiving all of his awards and paying the excise tax. The preceding limitation will not apply, however, if the award agreement or other agreement provides that we will indemnify the participant from any excise tax liability.

## **Table of Contents**

No awards may be granted under the stock incentive plan after March 2015. Our board of directors may amend or terminate the stock incentive plan at any time, but an amendment will not become effective without the approval of our stockholders if it increases the number of shares of common stock that may be issued under the plan, other than changes to reflect certain corporate transactions and changes in capitalization as described above. No amendment or termination of the stock incentive plan will affect a participant's rights under outstanding awards without the participant's consent.

Upon completion of our March 2005 private offering, we granted to the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock with an exercise price of \$15.00 per share, the price in the March 2005 private offering. These shares and options vest or become exercisable in three equal annual installments beginning on March 8, 2006. The Manager allocated 344,079 shares and 649,500 options to purchase shares of our common stock to its officers, employees and other individuals who provide services to it. In connection with the July 2006 hiring of a commercial mortgage direct loan origination team by Resource Real Estate, we agreed to issue up to 100,000 shares of common stock and options to purchase an additional 100,000 shares of common stock if certain loan origination performance thresholds are achieved. The performance thresholds are two-tiered. Upon the achievement of \$400.0 million of direct loan originations of commercial real estate loans, 60,000 restricted shares of common stock and options to purchase an additional 60,000 shares of common stock are issuable. Upon the achievement of another \$300.0 million of direct loan originations of commercial real estate loans, a second tranche of 40,000 restricted shares of common stock and options to purchase another 40,000 shares of common stock are issuable. The restricted shares and options to purchase shares of common stock vest over a two-year period after issuance. We also granted our non-employee directors an aggregate of 4,000 and 4,224 shares of stock on March 8, 2005 and March 8, 2006, respectively, on the terms discussed above.

## **Indemnification and Limitation on Liability; Insurance**

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:

actual receipt of an improper benefit or profit in money, property or services; or

active and deliberate dishonesty established by a final judgment as being material to the cause of action.

Our charter contains such a provision limiting directors' and officers' liability to the maximum extent permitted by Maryland law.

Our charter also authorizes us, to the maximum extent permitted by Maryland law, to 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 the request of our company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, 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 or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding.

Our bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while a director or officer of our company and at the request of our company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee 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 such capacity and to pay or reimburse his or her 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 employee or agent of our company or a predecessor of our company.

---

## **Table of Contents**

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made, or threatened to be made, a party by reason of his or her service in such capacity, or in the defense of any issue, claim or matter in such a proceeding. Maryland law permits a 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:

the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, or

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

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received.

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 corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

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

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.

In addition to the provisions in our charter and bylaws, we have indemnification agreements with each of our directors and executive officers. The indemnification agreements require us to indemnify our directors and executive officers to the fullest extent permitted by law and to advance all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Under these agreements, we must also indemnify and advance all expenses incurred by directors and executive officers seeking to enforce their rights under the indemnification agreements. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by our charter and bylaws and Maryland law, it provides greater assurance to directors and executive officers that indemnification will be available because, as a contract, it cannot be modified unilaterally in the future by the board of directors or the stockholders to eliminate the rights it provides.

We have obtained a policy of insurance under which our directors and officers will be insured, subject to the limits of the policy, against certain losses arising from claims made against them by reason of any acts or omissions in their respective capacities as directors or officers, including certain liabilities under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, or, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

## **Management Agreement**

*Duties.* Our management agreement with the Manager and Resource America requires the Manager to manage our business affairs in conformity with the policies and the investment guidelines established by our board of directors. See Business Investment Process Investment Guidelines. The Manager's role as



**Table of Contents**

manager is under the supervision and direction of our board of directors. The Manager is responsible for (i) the selection, purchase and sale of our portfolio investments, (ii) our financing activities, and (iii) providing us with investment advisory services. The agreement requires the Manager to provide us with all services necessary or appropriate for us to conduct our business, including the following:

serving as our consultant with respect to the periodic review of the investment criteria and parameters for our investments, borrowings and operations for the approval of our board of directors;

investigating, analyzing and selecting possible investment opportunities;

with respect to any prospective investment by us and any sale, exchange or other disposition of any investment by us, conducting negotiations on our behalf with sellers and purchasers and their respective agents, representatives and investment bankers;

engaging and supervising, on our behalf and at our expense, independent contractors who provide investment banking, mortgage brokerage, securities brokerage and other financial services and such other services as may be required relating to our investments;

coordinating and managing operations of any joint venture or co-investment interests held by us and conducting all matters with any joint venture or co-investment partners;

providing executive and administrative personnel, office space and office services required in rendering services to us;

administering our day-to-day operations and performing and supervising the performance of such other administrative functions necessary to our management as may be agreed upon by the Manager and our board of directors, including the collection of revenues and the payment of our debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

counseling us in connection with policy decisions to be made by our board of directors;

evaluating and recommending to our board of directors hedging strategies and engaging in hedging activities on our behalf, consistent with such strategies, as so modified from time to time, and consistent with our qualification as a REIT;

counseling us regarding the maintenance of our qualification as a REIT and monitoring compliance with the various REIT qualification tests and other rules set out in the Internal Revenue Code and Treasury regulations thereunder;

counseling us regarding the maintenance of our exclusion from the Investment Company Act and monitoring compliance with the requirements for maintaining an exclusion from the Investment Company Act;

## Edgar Filing: Resource Capital Corp. - Form S-11/A

assisting us in developing criteria for asset purchase commitments that are specifically tailored to our investment objectives and making available to us its knowledge and experience with respect to mortgage loans, real estate, real estate-related securities, other real estate-related assets and non-real estate related assets;

furnishing reports and statistical and economic research to us regarding our activities and services performed for us by the Manager;

monitoring the operating performance of our investments and providing periodic reports with respect thereto to our board of directors, including comparative information with respect to such operating performance and budgeted or projected operating results;

investing or reinvesting any money or securities of ours (including investing in short-term investments pending investment in other investments, payment of fees, costs and expenses, or payments of dividends or distributions to our stockholders and partners), and advising us as to our capital structure and capital raising;

**Table of Contents**

causing us to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Internal Revenue Code applicable to REITs and taxable REIT subsidiaries, and to conduct quarterly compliance reviews with respect thereto;

causing us to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

assisting us in complying with all regulatory requirements applicable to us in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act;

taking all necessary actions to enable us to make required tax filings and reports, including soliciting stockholders for required information to the extent provided by the provisions of the Internal Revenue Code and Treasury regulations applicable to REITs;

handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day-to-day operations, subject to such limitations or parameters as may be imposed from time to time by our board of directors;

using commercially reasonable efforts to cause expenses incurred by or on behalf of us to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by our board of directors from time to time;

advising us with respect to obtaining appropriate warehouse or other financing for our assets;

advising us with respect to and structuring long-term financing vehicles for our portfolio of assets, and offering and selling securities publicly or privately in connection with any structured transaction;

performing such other services as may be required from time to time for management and other activities relating to our assets as our board of directors shall reasonably request or the Manager shall deem appropriate under the particular circumstances; and

using commercially reasonable efforts to cause us to comply with all applicable laws.

The Manager does not assume any responsibility beyond the duties specified in the management agreement and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. The Manager, Resource America, their directors, officers, managers, employees and affiliates will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. We have agreed to indemnify the Manager, Resource America and their affiliates with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of the Manager, Resource America or their affiliates not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement. The Manager, Resource America and their affiliates have agreed to indemnify us, our directors and officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of the Manager, Resource America or their affiliates constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement or any claims by employees of the Manager, Resource America or their affiliates relating to the terms and conditions of their employment. The Manager and Resource America carry errors and omissions and other customary insurance.



## Edgar Filing: Resource Capital Corp. - Form S-11/A

The management agreement requires the Manager to provide us with our management team, including a chief executive officer, president and chief financial officer, along with support personnel necessary to provide

## Table of Contents

the management services it is required to provide under the management agreement. Our chief financial officer is exclusively dedicated to our operations.

*Initial Term; Termination.* The initial term of the management agreement expires on March 31, 2008 and will be automatically renewed for a one year term on each anniversary date thereafter. Our board of directors will review the Manager's performance annually. After the initial term, the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. Our board of directors must provide 180 days' prior notice of any such termination. The Manager will be paid a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

We may also terminate the management agreement for cause with 30 days' prior written notice from our board of directors. No termination fee is payable with respect to a termination for cause. The management agreement defines cause as:

the Manager's continued material breach of any provision of the management agreement following a period of 30 days after written notice thereof;

the Manager's fraud, misappropriation of funds, or embezzlement against us;

the Manager's gross negligence in the performance of its duties under the management agreement;

the bankruptcy or insolvency of the Manager, or the filing of a voluntary bankruptcy petition by the Manager;

the dissolution of the Manager; and

a change of control (as defined in the management agreement) of the Manager if a majority of our independent directors determines, at any point during the 18 months following the change of control, that the change of control was detrimental to the ability of the Manager to perform its duties in substantially the same manner conducted before the change of control.

Cause does not include unsatisfactory performance that is materially detrimental to our business.

The management agreement will terminate at the Manager's option, without payment of the termination fee, in the event we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately before such event.

*Base Management Fee.* We pay the Manager a monthly base management fee of 1/12 of our equity times 1.50%. For these purposes, equity means, for any month, the sum of the net proceeds from any issuance of our common stock, after deducting any underwriting discounts and commissions and other expenses and costs relating to the issuance, plus our retained earnings at the end of such month (without taking into account any non-cash equity compensation expense incurred in current or prior periods), which amount will be reduced by any amount that we pay for repurchases of our common stock. The calculation of the base management fee will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between the Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

The Manager will calculate the base management fee within 15 business days after the end of each month and must deliver its calculation to us promptly. We must pay the base management fee within 20 business days after the end of each month.



**Table of Contents**

*Reimbursement of Expenses.* Because employees of Resource America will perform certain legal, accounting, due diligence and other services that outside professionals or outside consultants otherwise would perform, we reimburse the Manager and Resource America for the documented cost of performing such tasks. The reimbursement amount may be no greater than the amount which we would be required to pay outside professionals or consultants on an arm's-length basis. We must reimburse the Manager's and Resource America's expenses by the 15th business day of each month for the prior month's expenses.

We are responsible for all of our operating expenses except those that the Manager has specifically agreed to assume under the management agreement. The Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of employees of the Manager and Resource America (except as referred to in the previous paragraph) and other related expenses. The expenses required to be paid by us include, but are not limited to:

issuance and transaction costs incident to the acquisition, disposition and financing of our investments;

legal, tax, accounting, consulting, auditing and administrative fees and expenses;

the compensation and expenses of our directors and the cost of liability insurance to indemnify our directors and officers;

the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of ours (including commitment fees, accounting fees, legal fees and closing costs);

the costs incurred to third parties, including affiliates of the Manager and Resource America, for servicing and special servicing of our assets, which will include servicing fees, in the amount of 1% of the book value of assets under management, to LEAF Financial for servicing our equipment lease investments;

expenses associated with other securities offerings of ours;

expenses relating to making distributions;

expenses connected with communications to holders of our securities and in complying with the reporting and other requirements of the SEC and other governmental bodies;

transfer agent and exchange listing fees;

the costs of printing and mailing proxies and reports to our stockholders;

the allocable costs associated with any computer software or hardware, electronic equipment, or purchased information technology services from third party vendors used for us;

the costs incurred by employees of the Manager and Resource America for travel on our behalf;

the allocable costs incurred with respect to market information systems and publications, research publications and materials;

settlement, clearing, and custodial fees and expenses;

the costs of maintaining compliance with all federal, state and local rules and regulations or any other regulatory agency, all taxes and license fees and all insurance costs incurred on our behalf; and

expenses relating to any office or office facilities, including disaster backup recovery sites and facilities maintained for us or separate from the offices of the Manager.

In addition, we are responsible for our pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its affiliates required for our operations.

**Table of Contents**

*Incentive Compensation.* In addition to the base management fee, the Manager will receive quarterly incentive compensation in an amount equal to the product of:

25% of the dollar amount by which

our net income (determined in accordance with GAAP) before non-cash equity compensation expense and incentive compensation (but after the base management fee) for the quarter per common share (based on the weighted average number of common shares outstanding for the quarter)

exceeds an amount equal to

the weighted average of \$15.00, the price per share of the common shares in our March 2005 offering, and the prices per common share in any subsequent offerings by us, in each case at the time of issuance thereof, multiplied by

the greater of

2.00% or

0.50% plus one-fourth of the Ten Year Treasury Rate for such quarter;

multiplied by the weighted average number of common shares outstanding during the quarter; provided, that the foregoing calculation of incentive compensation will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between the Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges. The management agreement defines the Ten Year Treasury Rate to be the average of weekly average yields to maturity for U.S. Treasury securities, adjusted to a constant maturity of 10 years, during a fiscal quarter.

The following is an example of how we would calculate the incentive compensation under hypothetical performance assumptions. For purposes of this calculation, we have assumed that:

GAAP net income before non-cash equity compensation expense, or adjusted GAAP net income, is \$10,000,000;

17,821,434 shares of common stock are outstanding, with the weighted average common shares outstanding being 17,821,434;

the Ten Year Treasury Rate is 4.610%; and

the weighted average offering price per share is \$16.00.

Under these assumptions, the incentive compensation would be calculated as follows:

Edgar Filing: Resource Capital Corp. - Form S-11/A

Adjusted GAAP net income per share (\$10,000,000 ÷ 17,821,434)	\$ .5611
Weighted average offering price per share (\$16.00) multiplied by the greater of (i) 2.00% or (ii) .50% plus one-fourth of the Ten Year Treasury Rate (1.15%)	\$ .3200
Excess of adjusted GAAP net income per share over amount in the second bullet point, above	\$ .2411
Weighted average number of shares outstanding multiplied by the amount in the third bullet point, above (17,821,434 x .2411)	\$ 4,296,748
Incentive compensation equals 25% of the amount calculated in the fourth bullet point, above	\$ 1,074,187

We structured the Manager's incentive compensation so that the Manager will receive this compensation only to the extent the return from our investments in any quarter exceeds the greater of a base rate of 2% per

---

**Table of Contents**

quarter or one-fourth of the average Ten Year Treasury Rate plus 0.50% per quarter, as described above. We believe that this provides the Manager with an incentive to achieve net income for us above this threshold, so that our stockholders receive a minimum return before the Manager receives additional compensation. While the structure of the incentive compensation rewards the Manager for achieving net income in excess of the base amount, it also has the effect of reducing the amount of income above the base amount that would be available absent the incentive compensation, and involves risks which we discuss in *Risk Factors* *Risks Related to Our Business*. The incentive fee we pay the Manager may induce it to make riskier investments. In addition, because the incentive fee is calculated on a quarterly basis, the Manager may receive an incentive fee in any particular quarter even though the annual return on our investments is less than the threshold or even negative.

The Manager will compute the quarterly incentive compensation within 30 days after the end of each fiscal quarter. We must pay the quarterly incentive compensation within five business days following the delivery to us of the Manager's written computation of the incentive fee for such quarter. The management agreement provides that 25% of the Manager's incentive compensation will be paid in shares of our common stock (provided that Resource America and its affiliates, including the Manager, may not own more than 15% of our common stock) and the balance in cash. The Manager may, in its sole discretion, elect to receive a greater percentage of its incentive compensation in the form of our common stock. Under our management agreement, the Manager may not elect to receive shares of our common stock as payment of its incentive compensation except in accordance with all applicable securities exchange rules and securities laws.

The number of shares the Manager receives will be based on the fair market value of these shares. Shares of our common stock delivered as payment of the incentive fee will be immediately vested or exercisable; however, the Manager has agreed not to sell the shares before one year after the date they are paid. This transfer restriction will lapse if the management agreement is terminated. The Manager may allocate these shares to its officers, employees and other individuals who provide services to it; however, the Manager has agreed not to make any such allocations before the first anniversary of the date of grant of such shares.

We have agreed to register the resale of these shares by the Manager. We have also granted the Manager the right to include these shares in any registration statements we might file in connection with any future public offerings, subject only to the right of the underwriters of those offerings to reduce the total number of secondary shares included in those offerings (with such reductions to be proportionately allocated among selling stockholders participating in those offerings).

*Restricted Stock and Option Grant.* Upon completion of our March 2005 private offering and execution of the management agreement, we granted the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock under our stock incentive plan. We describe these grants in *2005 Stock Incentive Plan*.

**Conflicts of Interest in Our Relationship with the Manager and Resource America**

We are entirely dependent upon the Manager for our day-to-day management and do not have any independent officers. Our chairman, two of our other directors, our executive officers and the members of our investment committee also serve as officers and/or directors of the Manager or Resource America. As a result, conflicts of interest may arise between the Manager and Resource America, on the one hand, and us, on the other. These conflicts include the following:

Our management agreement was negotiated between related parties and its terms, including fees payable and the termination provisions, may not be as favorable to us as if it had been negotiated at arm's length with an unaffiliated third party.

The Manager and Resource America are permitted to invest in, and to manage entities that invest in, asset classes that are the same as or similar to our targeted asset classes, except that they may not raise capital for, sponsor or advise any new publicly-traded REIT that invests primarily in MBS in the United



---

**Table of Contents**

States. In addition, our officers, other than our chief financial officer, and the employees of Resource America who provide services to us are not required to work full time on our affairs and anticipate devoting significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.

Our agreements with the Manager and Resource America do not prohibit us from entering into any investment opportunity in which the Manager or Resource America have an interest. We currently own 100% of the equity interests in four CDOs structured for us by the Manager and we anticipate that we will invest in the equity portions of future CDOs structured for us by the Manager. We may also invest in real estate loans and equipment leases and notes originated and managed by the Manager and Resource America. A conflict of interest may arise between us and the Manager and Resource America with respect to the terms upon which we would make such an investment. In the event that any such investment opportunity is made available to us, the transaction will require the approval of a majority of our independent directors.

We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest. Nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers and employees, as well as employees of the Manager and Resource America who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us.

The compensation we pay to the Manager consists of both a base management fee that is not tied to our performance and an incentive management fee that is based entirely on our performance. The risk of the base management fee component is that it may not provide sufficient incentive to the Manager to seek to achieve attractive returns for us. The risk of the incentive fee component is that it may cause the Manager to place undue emphasis on the maximization of short-term net income at the expense of other criteria, such as preservation of capital, in order to achieve a higher incentive fee. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it. Any such shares received would have the benefit of registration rights.

As described in Management Agreement Initial Term; Termination, termination of the management agreement without cause is difficult and could be costly.

The Manager does not assume any responsibility beyond the duties specified in the management agreement and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. The Manager, Resource America, their directors, officers, managers, employees and affiliates will not be liable to us, our directors or our stockholders for, and we have agreed to indemnify them for all claims and damages arising from, acts or omissions performed in good faith in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. As a result, we could experience poor performance or losses for which the Manager would not be liable. The Manager, Resource America and their affiliates have agreed to indemnify us, our directors and officers with respect to all claims and damages arising from acts of the Manager, Resource America or their affiliates constituting bad faith, willful misconduct, gross

## **Table of Contents**

negligence or reckless disregard of their duties under the management agreement or any claims by employees of the Manager, Resource America or their affiliates relating to the terms and conditions of their employment. The Manager and Resource America carry directors' and officers' insurance.

### **Resolution of Potential Conflicts of Interest in Allocation of Investment Opportunities**

The Manager and Resource America must offer us the right to consider all investments they identify that are within the parameters of our investment strategies and policies. For all potential investments other than in equipment leases and notes, if the Manager and Resource America identify an investment that is appropriate both for us and for one or more other investment programs managed by them, but the amount available is less than the amount sought by all of their investment programs, they will allocate the investment among us and such other investment programs in proportion to the relative amounts of the investment sought by each. If the portion of the investment allocable to a particular investment program would be too small for it to be appropriate for that investment program, either because of economic or market inefficiency, regulatory constraints (such as REIT qualification or exclusion from regulation under the Investment Company Act) or otherwise, that portion will be reallocated among the other investment programs. Investment programs that do not receive an allocation will have preference in future investments where investment programs are seeking more of the investment than is available so that, on an overall basis, each investment program is treated equitably.

To equitably allocate investments that the Manager or Resource America has acquired at varying prices, the Manager and Resource America will allocate the investment so that each investment program will pay approximately the same average price.

With respect to equipment leases and notes, if an investment is appropriate for more than one investment program, including us, the Manager and Resource America will allocate the investment based on the following factors:

which investment program has been seeking investments for the longest period of time;

whether the investment program has the cash required for the investment;

whether the amount of debt to be incurred with respect to the investment is acceptable for the investment program;

the effect the investment will have on the investment program's cash flow;

whether the investment would further diversify, or unduly concentrate, the investment program's investments in a particular lessee, class or type of equipment, location or industry; and

whether the term of the investment is within the term of the investment program.

The Manager and Resource America may make exceptions to these general policies when other circumstances make application of the policies inequitable or uneconomic.

The Manager has also instituted policies designed to mitigate potential conflicts of interest between it and us, including:

We will not be permitted to invest in any investment fund or CDO structured, co-structured or managed by the Manager or Resource America other than those structured, co-structured or managed on our behalf. The Manager and Resource America will not receive duplicate management fees from any such investment fund or CDO to the extent we invest in it.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

We will not be permitted to purchase investments from, or sell investments to, the Manager or Resource America, except that we may purchase investments originated by those entities within 60 days before our investment.

Any transaction between entities managed by the Manager or Resource America and us must be approved by a majority of our independent directors.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table sets forth the number and percentage of shares of our common stock beneficially owned as of December 6, 2006 by each of our directors and executive officers, all of our directors and executive officers as a group and other persons who beneficially own 5% or more of our outstanding common stock. This information is reported in accordance with the beneficial ownership rules of the SEC under which a person is deemed to be the beneficial owner of a security if that person has or shares voting power or investment power with respect to such security or has the right to acquire such ownership within 60 days. Shares issuable pursuant to warrants are deemed to be outstanding for purposes of computing the percentage of the person or group holding such warrants but are not deemed to be outstanding for purposes of computing the percentage of any other person.

Name and address	Before offering <sup>(1)</sup>		After offering <sup>(1)</sup>	
	Shares owned	Percentage	Shares owned	Percentage
<b>Executive officers and directors:<sup>(2)</sup></b>				
Edward E. Cohen <sup>(3)</sup>	258,667	1.45%	258,667	1.08%
Jonathan Z. Cohen <sup>(3)</sup>	279,001	1.56%	279,001	1.17%
Walter T. Beach <sup>(4)(5)</sup>	542,223	3.04%	542,223	2.27%
William B. Hart <sup>(5)</sup>	13,156	*	13,156	*
Murray S. Levin <sup>(5)</sup>	6,556	*	6,556	*
P. Sherrill Neff <sup>(5)</sup>	12,156	*	12,156	*
Steven J. Kessler <sup>(3)</sup>	16,250	*	16,250	*
Jeffrey D. Blomstrom <sup>(3)</sup>	13,933	*	13,933	*
David J. Bryant <sup>(3)</sup>	5,000	*	5,000	*
David E. Bloom <sup>(3)</sup>	15,483	*	15,483	*
All executive officers and directors as a group (10 persons)	1,162,425	6.50%	1,162,425	4.87%
<b>Owners of 5% or more of outstanding shares:<sup>(6)</sup></b>				
Resource America, Inc. <sup>(7)</sup>	2,015,085	11.24%	2,015,085	8.42%
Elliott Management Corp. <sup>(8)</sup>	1,467,400	8.17%	1,467,400	6.13%
Omega Advisors, Inc. <sup>(9)</sup>	2,762,834	15.33%	2,762,834	11.50%

\* Less than 1%.

- (1) Does not reflect 651,666 shares of common stock issuable upon exercise of options or 328,443 shares of common stock available for future grant under our stock incentive plan. Includes 1,568,244 shares of common stock issuable upon exercise of the warrants which vest on January 13, 2007.
- (2) The address for all of our executive officers and directors is c/o Resource Capital Corp., 712 Fifth Avenue, 10th Floor, New York, New York 10019.
- (3) Includes shares originally issued to the Manager as part of the 345,000 shares of restricted stock we granted to it in connection with our March 2005 private offering, and transferred by it, without consideration, as follows: E. Cohen 70,000; J. Cohen 133,333; S. Kessler 7,500; J. Blomstrom 11,666; and D. Bloom 6,666. Each such person has the right to receive distributions on and vote, but not to transfer, such shares. One-third of the grant amount vests in the recipient each year, commencing March 8, 2006, except that the vesting period for 33,333 of the shares transferred to J. Cohen; 1,666 shares transferred to J. Blomstrom and 1,666 shares transferred to D. Bloom commences January 3, 2007.
- (4) Includes (i) 525,733 shares purchased by Beach Asset Management, LLC, Beach Investment Counsel, Inc. or Beach Investment Management, LLC, investment management firms for which Mr. Beach is a principal and possesses investment and/or voting power over the shares and (ii) 14,434 shares of common stock issuable upon exercise of the warrants which vest on January 13, 2007. The address for these investment management firms is Five Tower Bridge, 300 Barr Harbor Drive, Suite 220, West Conshohocken, PA 19428.
- (5) Includes 1,056 restricted shares issued to each non-employee director on March 8, 2006 in connection with their service as a director. Each non-employee director has the right to receive distributions on and vote, but not to transfer, such shares. All such shares vest in the recipient on March 8, 2007.
- (6) The addresses for our 5% or more holders are as follows: Resource America: 1845 Walnut Street, Suite 1000, Philadelphia, PA 19103; Elliott Management Corp.: 712 Fifth Avenue, 36th Floor, New York, New York 10019; and Omega Advisors, Inc.: 88 Pine Street, Wall Street Plaza, 31<sup>st</sup> Floor, New York, New York 10005.
- (7) Includes (i) 921 shares of restricted stock granted to the Manager in connection with our March 2005 private placement that the Manager has not allocated, (ii) 100,000 shares purchased by the Manager in our initial public offering, (iii) 900,000 shares purchased by Resource Capital Investor in our private placement, (iv) 900,000 shares purchased by Resource Capital Investor in our initial public

**Table of Contents**

- offering, (v) 14,076 shares transferred to the Manager as incentive compensation and (vi) 100,088 shares of common stock issuable upon exercise of the warrants which vest on January 13, 2007.
- (8) This information is based on Schedule 13G filed with the SEC on March 6, 2006. Paul Singer has voting and/or investment power over these shares. Includes 133,400 shares of common stock issuable upon exercise of the warrants which vest on January 13, 2007.
- (9) This information is based on a Form 4 filed with the SEC on July 26, 2006. Leon G. Cooperman has voting and/or investment power over these shares. Includes 206,667 shares of common stock issuable upon exercise of the warrants which vest on January 13, 2007. Pursuant to the 15% waiver granted to Omega Advisors in connection with the ownership limitation, Omega Advisors may be prohibited from exercising a majority of these warrants without first disposing of other shares of our common stock. See Description of Capital Stock and Warrants Restrictions on Ownership and Transfer.

---

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We have entered into a management agreement under which the Manager receives substantial fees. We describe the management agreement and the fees payable under its provisions in Management Management Agreement. From March 8, 2005, the date we commenced operations, through December 31, 2005, the Manager earned base management fees of approximately \$2.7 million, incentive compensation fees of \$344,000, and received expense reimbursements of \$797,000. For the nine months ended September 30, 2006, the Manager earned base management fees of approximately \$2.7 million, incentive compensation fees of \$432,000, and received expense reimbursements of \$821,000.

The Manager is an indirect wholly-owned subsidiary of Resource America. Edward E. Cohen, the Chairman of Resource America and the Manager, and Jonathan Z. Cohen, the Chief Executive Officer and President of Resource America and the Manager, in the aggregate beneficially owned 23% of Resource America's common stock as of September 30, 2006. This information is reported in accordance with the beneficial ownership rules of the SEC under which a person is deemed to be the beneficial owner of a security if that person has or shares voting power or investment power with respect to such security or has the right to acquire such ownership within 60 days.

Employees of Resource America act as our officers and employees. Two of our directors, Edward E. Cohen and Jonathan Z. Cohen, are also directors of Resource America, and our chief executive officer, Jonathan Cohen, is also the chief executive officer of Resource America. We reimburse the Manager and Resource America for expenses, including compensation expenses for employees of Resource America who perform legal, accounting, due diligence and other services that outside professionals or consultants would otherwise perform. See Management Directors and Executive Officers, Management Agreement and Conflicts of Interest in our Relationship with the Manager and Resource America.

Resource America, entities affiliated with it and our officers and directors collectively own 3,516,571 shares of common stock, representing approximately 17.5% of our common stock on a fully-diluted basis, including 1,000,000 shares purchased in our March 2005 private offering, 900,000 shares purchased in our February 2006 initial public offering, 278,000 shares purchased by our officers and directors in our March 2005 private offering, 72,500 shares purchased by our officers and directors in our February 2006 initial public offering, 84,400 shares purchased by our officers and directors subsequent to our February 2006 initial public offering, 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock granted to the Manager upon completion of our March 2005 private offering, 8,224 shares of restricted stock granted to our directors, 14,076 shares of common stock issued to the Manager as incentive compensation and warrants to purchase 162,705 shares of our common stock received by Resource America, entities affiliated with it and our officers and directors in connection with our January 2006 special dividend.

The Manager subsequently allocated 344,079 shares of the 345,000 shares of restricted stock and 649,500 of the 651,666 stock options to persons who are directors, officers and employees of the Manager or of Resource America providing management services through the Manager.

LEAF Financial originates and manages our equipment lease and note investments. We then purchase these investments from LEAF Financial at a price equal to their book value plus a reimbursable origination cost not to exceed 1% to compensate LEAF Financial for its origination costs. In addition, we will pay LEAF Financial an annual servicing fee, equal to 1% of the book value of managed assets, for servicing our equipment lease investments. During the three months ended September 30, 2006, we sold two equipment notes back to LEAF Financial for \$16.3 million, their book value.

## **Table of Contents**

### **DESCRIPTION OF CAPITAL STOCK AND WARRANTS**

*The following is a summary description of our capital stock. Copies of our charter and bylaws 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 500,000,000 shares of common stock and 100,000,000 shares of preferred stock, both having par value \$0.001 per share. As of December 6, 2006, we had 17,821,434 shares of common stock outstanding. Under Maryland law, our stockholders are not personally liable for our debts and obligations solely as a result of their status as stockholders.

#### **Common Stock**

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, appraisal, preferential exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws, by contract or by the restrictions in our charter. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after payment of or adequate provision for all of our known debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Subject to our charter restrictions on the transfer and ownership of our stock and except as may be specified otherwise in the terms of any class or series of our common stock, each share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors and holders of less than a majority of such shares will be unable to elect any director.

#### **Warrants**

On January 13, 2006, we issued warrants to our stockholders of record on January 4, 2006, including holders of restricted stock, as a dividend. Each warrant entitles the holder to purchase one share of our common stock at an exercise price of \$15.00 per share. Stockholders received one warrant for each 10 shares of common stock held. If an existing stockholder owned shares in other than a ten-share increment, the stockholder received an additional warrant. The warrants will expire on January 13, 2009, and will not be exercisable until January 13, 2007. The exercise price of the warrants, and the number of shares issuable upon exercise of the warrants is subject to adjustment in the event of payment of a stock dividend with respect to, or a distribution of shares of, our common stock, a combination or reclassification of our common stock, or a consolidation or merger.

#### **Power to Reclassify Unissued Shares of Our Capital Stock**

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Before issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set, subject to our charter restrictions on the transfer and ownership of our stock, 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, the board of directors could authorize the issuance of shares of common stock or preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interests. No shares of our preferred stock are presently outstanding and we have no present plans to issue any preferred stock.

---

**Table of Contents**

**Power to Issue Additional Shares of Common Stock and Preferred Stock**

We believe that the power of our board of directors to amend the charter without stockholder approval to increase the total number of authorized shares of our stock or any class or series of our stock, to issue additional authorized but unissued 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 interests.

**Restrictions on Ownership and Transfer**

In order to qualify as a REIT under the Internal Revenue 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 may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the second half of any calendar year.

Our charter, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own and may prohibit certain entities from owning our shares. Our charter provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of our capital stock. Our board may, in its sole discretion, waive the 9.8% ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. Our board has waived the ownership limit for Omega Advisors, in its capacity as the manager of funds and investment accounts, and Resource America. Our board has set Omega's and Resource America's ownership limit at 15% of our outstanding capital stock in the aggregate, provided that no one of Omega's funds or accounts can own more than 9.8% of our outstanding capital stock. Our board may reduce each of these ownership limits at its discretion; however, any such reduction will not be effective as to shares then owned by Omega's funds and accounts or by Resource America in excess of the reduced limit. As of September 30, 2006, none of Omega's funds or accounts individually owns more than 9.8% of our outstanding common stock although, collectively, they owned 14.3%. At September 30, 2006, Resource America, through its subsidiaries, owned 10.7% of our outstanding common stock. Each such fund or account would be deemed to be a separate holder for Internal Revenue Code purposes.

Our charter also prohibits any person from:

beneficially or constructively owning shares of our capital stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT, and

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 or constructive ownership of shares of our capital stock that will or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of shares of our stock which are transferred to the trust (as described below), will be required to give notice immediately to us and provide us with such other information as we may request in



---

**Table of Contents**

order to determine the effect of such transfer on our qualification as a REIT. The foregoing restrictions on transferability and ownership will 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 board of directors, in its sole discretion, may exempt a person from the foregoing restrictions. The person seeking an exemption must provide to our board of directors such representations, covenants and undertakings as our board of directors may deem appropriate in order to conclude that granting the exemption will not cause us to lose our qualification as a REIT. Our board of directors may also require a ruling from the Internal Revenue Service or an opinion of counsel in order to determine or ensure our qualification as a REIT.

Our charter provides that, until all classes of our equity securities are publicly-traded for purposes of resolutions issued by the U.S. Department of Labor regarding assets of benefit plans, which we refer to as the DOL Plan Asset Regulations, equity participation in any class of our capital stock by benefit plan investors is limited to less than 25% in the aggregate, disregarding for such purposes any stock held by persons or their affiliates who have discretionary authority or control over our assets or who provide investment advice for a fee with respect to our assets (such as the Manager and its affiliates), so that such participation in that class of our stock by benefit plan investors will not be deemed to be significant. At September 30, 2006, we had only one outstanding class of capital stock, which we believe comes within the definition of publicly traded under DOL Plan Asset Regulations.

Any attempted transfer of our stock which, if effective, would result in a violation of the foregoing restrictions will cause the number of shares causing the violation (rounded to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such shares. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our charter) before the date of the transfer. If, for any reason, the transfer to the trust does not occur, our charter provides that the purported transfer in violation of the restrictions will be void *ab initio*. Shares of our stock held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of stock held in the trust, will have no rights to distributions and no rights to vote or other rights attributable to the shares of stock held in the trust. The trustee of the trust will have all voting rights and rights to distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any distribution paid before our discovery that shares of stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any distribution authorized but unpaid will be paid when due to the trustee. Any distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Maryland law, the trustee will have the authority to rescind as void any vote cast by the proposed transferee before our discovery that the shares have been transferred to the trust and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our stock have been transferred to the trust, the trustee will sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon such sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of:

the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the trust, and

the price received by the trustee from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, before our discovery that shares of our stock have been transferred to the trust, the shares are sold by the proposed transferee, then the shares shall be deemed to have been sold on behalf of the

---

**Table of Contents**

trust and, to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess must be paid to the trustee upon demand.

In addition, shares of our stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of:

the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift), and

the market price on the date we, or our designee, accept the offer.

We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

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 Internal Revenue Code or the regulations promulgated thereunder) of all classes or series of our stock, including shares of common stock, within 30 days after the end of each taxable year, will be 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 must provide us such additional information as we may request in order to determine the effect, if any, of the beneficial ownership on our qualification as a REIT and to ensure compliance with the ownership limitations. In addition, each such owner must, upon demand, provide to us such information as we may request, in good faith, in order to determine our qualification 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 interests of our stockholders.

**Transfer Agent and Registrar**

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

**Registration Rights**

In connection with our March 2005 private offering, we entered into a registration rights agreement with Credit Suisse Securities (USA) LLC on behalf of the holders of common stock issued in the private offering. Pursuant to that agreement, we included in the registration statement covering our February 2006 initial public offering 1,879,200 shares of common stock offered by certain selling stockholders who purchased shares of our common stock originally issued and sold in the private placement. We also agreed, among other things, to file a shelf registration statement no later than March 31, 2006 for the resale of their shares. A registration statement covering the resale of 14,450,800 shares was declared effective on May 24, 2006. We agreed to cause this shelf registration statement to remain effective until the first to occur of (a) the disposition of all shares of common stock sold in the private placement under a registration statement or pursuant to Rule 144, (b) the date on which the shares of common stock sold in the private placement are saleable under Rule 144(k) under the Securities Act or (c) the date that is two years after the effective date of the shelf registration statement. In connection with our January 2006 issuance of warrants to purchase 1,568,244 shares of our common stock to our stockholders, we agreed to file a shelf registration statement with respect to the underlying shares of common stock on or before July 12, 2007. We also have agreed to register shares of restricted stock and shares of common stock underlying options issued to the Manager upon completion of the private offering and shares of common stock issued to the Manager as incentive compensation under our management agreement.

---

**Table of Contents**

**SHARES ELIGIBLE FOR FUTURE SALE**

We cannot predict the effect, if any, that sales of shares or the availability of shares for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock.

As of December 6, 2006, we had 17,821,434 shares of our common stock outstanding. The shares of common stock that were sold in our February 2006 initial public offering are freely tradeable without restriction or further registration under the Securities Act unless the shares are held by any of our affiliates, as that term is defined in Rule 144 under the Securities Act. As defined in Rule 144, an affiliate of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the issuer. The shares of our common stock held by our affiliates, including our officers and directors, are restricted securities as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered under the securities laws or if they qualify for an exemption from registration under Rule 144, as described below.

**Rule 144**

In general, under Rule 144, a person (or persons whose shares are aggregated) who owns shares that were purchased from us or any affiliate at least one year previously, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of our then-outstanding shares of common stock or the average weekly trading volume of our common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC. Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about us. Any person (or persons whose shares are aggregated) who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who owns shares within the definition of restricted securities under Rule 144 that were purchased from us or any affiliate at least two years previously, would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements.

**Rule 710**

Subject to limitations on the aggregate offering price of a transaction and other conditions, Rule 710 may be relied upon with respect to the resale of securities originally purchased from us by our directors, officers, consultants or advisers before we become subject to the reporting requirements of the Exchange Act, pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options, including exercises after the date of this prospectus. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its minimum holding period requirements.

**Lock-Up Agreements**

Subject to certain exceptions, we have agreed with the underwriters in this offering not to offer to sell, contract to sell, or otherwise dispose of, loan, pledge or grant any rights with respect to any shares of our common stock, any options or warrants to purchase any shares of our common stock or any securities convertible into or exchangeable for any of our common stock for a period of 90 days following the date of this prospectus. Our officers and directors, members of our investment committee, our Manager, Resource America and their affiliates have also agreed, subject to certain exceptions, that they will not, without the prior written consent of the underwriters in this offering, directly and indirectly, offer to sell, sell or otherwise dispose of any shares of our common stock or any securities convertible into, or exercisable or exchangeable for, any shares of our common stock, for a period of 90 days following the date of this prospectus.

The underwriters in this offering may, in their sole discretion, release all or any portion of the securities subject to the lock-up agreements at any time without notice or stockholder approval.

**Table of Contents**

**Registration Rights**

As described in Description of Capital Stock and Warrants Registration Rights, pursuant to a shelf registration statement we have registered the resale of up to 14,450,800 shares of our common stock, and have agreed to file a registration statement by July 12, 2007 covering the resale of 1,568,244 shares of our common stock underlying warrants issued to our stockholders in January 2006. We have also agreed to register shares of restricted stock, shares of common stock underlying options and incentive compensation shares issued to our Manager.

---

**Table of Contents**

**CERTAIN PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS**

*The following summarizes material provisions of Maryland law and our charter and bylaws. Copies of our charter and bylaws are filed as exhibits to the registration statement of which this prospectus is a part. See [Where You Can Find More Information](#).*

The MGCL and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. We expect that these provisions may discourage certain coercive takeover practices and inadequate takeover bids and may encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

**Number of Directors; Vacancies; Removal**

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than five nor more than 15. Our bylaws currently provide that any vacancy may be filled by a majority of the remaining directors, except a vacancy resulting from an increase in the number of directors must be filled by a majority of the entire board of directors. Any individual elected to fill such vacancy will serve until the next annual meeting of stockholders, and until a successor is duly elected and qualifies. However, our charter provides that, at such time as we have at least three independent directors and a class of our common or preferred stock is registered under the Exchange Act, we elect to be subject to the provision of Subtitle 8 of Title 3 of the MGCL regarding the filling of vacancies on the board of directors. We have had four independent directors since March 2005. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is duly elected and qualifies.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

**Action by Stockholders**

Under the MGCL, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for a lesser percentage, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

**Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals**

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

pursuant to our notice of the meeting,

by the board of directors or

by a stockholder who was a stockholder of record both at the time of giving of notice by such stockholder as provided for in our bylaws and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws.

## **Table of Contents**

With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only

pursuant to our notice of the meeting,

by the board of directors or

provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of giving of notice by such stockholder as provided for in our bylaws and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if 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 or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

## **Calling of Special Meetings of Stockholders**

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders shall be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

## **Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws**

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions, which have been first declared advisable by our board of directors, by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter.

Our bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

## **No Appraisal Rights**

As permitted by the MGCL, our charter provides that stockholders will not be entitled to exercise appraisal rights.

## **Control Share Acquisitions**

The Maryland Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter.



---

## **Table of Contents**

Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror 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, but does not include the acquisition of shares (i) under the laws of descent and distribution, (ii) under the satisfaction of a pledge or other security interest created in good faith and not for the purpose of circumventing this subtitle, or (iii) under a merger, consolidation, or share exchange effected under Subtitle 1 of the Control Share Acquisition Act if the corporation is a party to the merger, consolidation, or share exchange.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation 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, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. 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 by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Acquisition Act does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests.

## **Business Combinations**

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited 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. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period before the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.





## **Table of Contents**

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he or she otherwise would have become an interested stockholder. However, in approving a transaction, the 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 the board.

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

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's 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 shares.

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

### **Subtitle 8**

Subtitle 8 of Title 3 of the MGCL 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 five provisions:

a classified board;

a two-thirds stockholder vote requirement for removing a director;

a requirement that the number of directors be fixed only by vote of the directors;

a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and

a majority requirement for the calling of a special meeting of stockholders.

Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (a) require a two-thirds stockholder vote for the removal of any director from the board, as well as require such removal be for cause (as defined in our charter), (b) unless called by our chairman of the board, our president, our chief executive officer or the board, require the request of holders of a majority of outstanding shares to call a special meeting and (c) vest in the board of exclusive power to fix the number of directorships. Our charter also provides that from such time as Subtitle 8 became applicable to us, our board has the exclusive power to fill vacancies on the board, by a vote of the remaining directors, and such vacancies will be filled until the end of the term of the class of directors in which the vacancy occurred.

---

**Table of Contents**

**FEDERAL INCOME TAX CONSEQUENCES OF OUR QUALIFICATION AS A REIT**

This section summarizes the material federal income tax considerations that you, as a stockholder, may consider relevant. Ledgewood has acted as our counsel, has reviewed this summary, and is of the opinion that the discussion contained herein fairly summarizes the federal income tax consequences that are likely to be material to a holder of our shares of common stock. 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 federal income tax laws, such as insurance companies, tax-exempt organizations (except to the extent discussed in Taxation of Tax-Exempt Stockholders below), financial institutions or broker-dealers, and non-U.S. individuals and foreign corporations (except to the extent discussed in Taxation of Non-U.S. Stockholders below).

The statements in this section are based on the current federal income tax laws. We cannot assure you that new laws, interpretations of law, court decisions, any of which may take effect retroactively, will not cause any statement in this section to be inaccurate.

**We urge you to consult your own tax advisor regarding the specific tax consequences to you of the purchase, ownership and sale of our common stock and of our election to be taxed as a REIT.**

**Taxation of Our Company**

We have elected to be taxed as a REIT under the federal income tax laws effective for our initial taxable year ended December 31, 2005. We believe that, commencing with such taxable year, we have been organized and operated in such a manner so as to qualify for taxation as a REIT under the federal income tax laws, and we intend to continue to operate in such a manner, but no assurances can be given that we have qualified or will continue to remain qualified as a REIT. This section discusses the laws governing the federal income tax treatment of a REIT and its stockholders. These laws are highly technical and complex.

In connection with this prospectus, Ledgewood is rendering an opinion that, commencing with our taxable year ended on December 31, 2005, we have been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the federal income tax laws, and our current and proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT under the federal income tax laws. Ledgewood's opinion is based upon customary assumptions, is 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, and isn't binding upon the Internal Revenue Service, which we refer to in this discussion as the IRS, or any court. In addition, Ledgewood's opinion is based on existing 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 annual operating results, certain qualification tests set forth in the federal 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 stock ownership, and the percentage of our earnings that we distribute. Ledgewood 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. For a discussion of the federal income tax consequences of our failure to qualify as a REIT, see Failure to Qualify.

If we qualify as a REIT, we generally will not be subject to federal income tax on our net taxable income that we distribute to our stockholders, but taxable income generated by Resource TRS will be subject to regular corporate income tax. However, our stockholders will generally be taxed on dividends that they receive at ordinary income rates unless such dividends are designated by us as capital gain dividends, return of capital or qualified dividend income. This differs from non-REIT C corporations, which generally are subject to federal corporate income taxes but whose individual and certain non-corporate trust and estate stockholders are generally

## Table of Contents

taxed on dividends they receive at the 15% rate on qualified dividend income, and whose corporate stockholders generally receive the benefits of a dividends received deduction that substantially reduces the effective rate that they pay on such dividends. In general, income earned by a REIT and distributed to its stockholders will be subject to less federal income taxation than if such income were earned by a non-REIT C corporation, subjected to corporate income tax, and then distributed and taxed to stockholders.

While we generally are not subject to corporate income taxes on income that we distribute currently to stockholders, we will be subject to federal tax in the following circumstances:

We will pay federal income tax on 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 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 on 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 due to reasonable cause and not willful neglect, as described below under Requirements for Qualification Gross Income Tests, and nonetheless continue to qualify as a REIT, we will pay a 100% tax on 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.

In the event of a failure of any of the asset tests (other than certain de minimis failures of the 5% and 10% asset tests), as described below under Requirements for Qualification Asset Tests, as long as the failure was due to reasonable cause and not to willful neglect and we dispose of the assets or otherwise comply with such asset tests within six months after the last day of the quarter, we will pay a tax equal to the greater of \$50,000 or 35% of the net income from the nonqualifying 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 violation is due to reasonable cause, we may retain our qualification as a REIT but will be required to pay a penalty of \$50,000 for each such failure.

If we fail to distribute during a calendar year at least the sum of:

85% of our REIT ordinary income for the year,

95% of our REIT capital gain net income for the year, and

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.

---

**Table of Contents**

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

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 10-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 an immediate tax when the asset is acquired.

If we own a residual interest in a real estate mortgage investment conduit, or REMIC, we will be taxable at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our stock that is held by disqualified organizations. Similar rules will also apply if we own an equity interest in a taxable mortgage pool. To the extent that we own a REMIC residual interest or a taxable mortgage pool through a TRS, we will not be subject to this tax. For a discussion of excess inclusion income, see Requirements for Qualification Taxable Mortgage Pools. A disqualified organization includes:

the United States;

any state or political subdivision of the United States;

any foreign government;

any international organization;

any agency or instrumentality of any of the foregoing;

any other tax-exempt organization, other than a farmer's cooperative described in section 521 of the Internal Revenue Code, that is exempt both from income taxation and from taxation under the unrelated business taxable income provisions of the Internal Revenue Code; and

any rural electrical or telephone cooperative

We have subsidiaries or own interests in other lower-tier entities that are corporations, including domestic TRSs, the earnings of which are subject to U.S. federal corporate income tax.

We do not currently intend to hold REMIC residual interests but it is likely that we directly or through a qualified REIT subsidiary of ours will own residual interests in taxable mortgage pools, such as our interest in Ischus CDO II.

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 federal income tax purposes. Moreover, as further described below, any

domestic TRS in which we own an interest, including Resource TRS, will be subject to federal corporate income tax on its taxable income.

**Requirements for Qualification**

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

It is managed by one or more trustees or directors.

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

## Table of Contents

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

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

At least 100 persons are beneficial owners of its shares or ownership certificates.

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 federal income tax laws define to include certain entities, during the last half of any taxable year.

It elects to be a REIT, or has made such an election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.

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

We must meet the first four requirements during our entire taxable year and must meet the fifth requirement during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. The fifth and sixth requirements will apply to us beginning with our 2006 taxable year. If we comply with all the requirements for ascertaining the ownership of our outstanding stock in a taxable year and have no reason to know that we violated the sixth requirement, we will be deemed to have satisfied the sixth requirement for that taxable year. For purposes of determining share ownership under the sixth requirement, 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, however, generally does not include a trust that is a qualified employee pension or profit sharing trust under the federal income tax laws, and beneficiaries of such a trust will be treated as holding our stock in proportion to their actuarial interests in the trust for purposes of the sixth requirement.

We believe that we have issued sufficient common stock with sufficient diversity of ownership to satisfy the fifth and sixth requirements. In addition, our charter restricts the ownership and transfer of our stock so that we should continue to satisfy these requirements. The provisions of our charter restricting the ownership and transfer of our common stock are described in *Description of Capital Stock* *Restrictions on Ownership and Transfer*.

If we comply with regulatory rules pursuant to which we are required to send annual letters to our stockholders requesting information regarding the actual ownership of our stock, and we do not know, or exercising reasonable diligence would not have known, whether we failed to meet the sixth requirement, we will be treated as having met the requirement.

In addition, we must satisfy all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain our REIT qualification, use a calendar year for federal income tax purposes, and comply with the record keeping requirements of the Internal Revenue Code and regulations promulgated thereunder which we have satisfied or intend to satisfy.

*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 capital stock of which is owned 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 partnership or limited liability company, that has a single owner, generally is not treated as an entity separate from its parent for



**Table of Contents**

federal income tax purposes. An unincorporated domestic entity with two or more owners generally is treated as a partnership for 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 (described in [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 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.

*Taxable REIT Subsidiaries.* A REIT is permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries, or TRSs. A TRS is generally 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 of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock 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. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

We have jointly elected with Resource TRS to treat Resource TRS as our TRS. As a TRS, Resource TRS will be subject to federal income tax, and state and local income tax where applicable, on its taxable income. To the extent that Resource TRS is required to pay taxes, it will have less cash available for distribution to us. If Resource TRS pays dividends to us, then the dividends we pay to our stockholders who are taxed as individuals, up to the amount of dividends we receive from Resource TRS, will generally be eligible to be taxed at the reduced 15% rate applicable to qualified dividend income. See [Taxation of Taxable U.S. Stockholders](#). The decision as to whether Resource TRS will distribute its after-tax income to us will be made on a periodic basis, subject to our compliance with the 20% asset test.

We have made a TRS election with respect to Apidos CDO I and Apidos CDO III, and we anticipate that we will likely continue to make TRS elections with respect to certain entities that issue equity interests to us pursuant to CDO securitizations. The Internal Revenue Code and the Treasury regulations promulgated thereunder provide a specific exemption from U.S. federal income tax to non-U.S. corporations that restrict their activities in the United States to trading in stock and securities (or any activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. Certain U.S. stockholders of such non-U.S. corporations are required to include in their income currently their proportionate share of the earnings of such a corporation, whether or not such earnings are distributed. Apidos CDO I, Apidos CDO III and, we expect, certain of the additional CDO vehicles in which we may invest and with which we will jointly make a TRS election, will be organized as Cayman Islands companies and will either rely on such exemption or otherwise operate in a manner so that they will not be subject to U.S. federal income tax on their net income. Therefore, despite such contemplated entities' anticipated status as TRSs, such entities would generally not be subject to U.S. federal corporate income tax on their earnings. However, we will likely be required to include in our income, on a current basis, the earnings of these TRSs. This could affect our ability to comply with the REIT income tests and distribution requirements. See [Gross Income Tests](#) and [Distribution Requirements](#).

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants that are not conducted on an arm's-length basis.

---

**Table of Contents**

*Taxable Mortgage Pools.* An entity, or a portion of an entity, may be classified as a taxable mortgage pool under the Internal Revenue Code if:

substantially all of its assets consist of debt obligations or interests in debt obligations;

more than 50% of those debt obligations are real estate mortgage loans or interests in real estate mortgage loans as of specified testing dates;

the entity has issued debt obligations that have two or more maturities; and

the payments required to be made by the entity on its debt obligations bear a relationship to the payments to be received by the entity on the debt obligations that it holds as assets.

Under U.S. Treasury regulations, if less than 80% of the assets of an entity (or a portion of an entity) consists 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 taxable mortgage pool.

The Ischus CDO II securitization of mortgage loans is classified as a taxable mortgage pool securitization.

We likely will continue to make investments or enter into financing and securitization transactions, similar to Ischus CDO II, that give rise to us being considered to own an interest in one or more taxable mortgage pools. Where an entity, or a portion of an entity, is classified as a taxable mortgage pool, it is generally treated as a taxable corporation for federal income tax purposes. However, special rules apply to a REIT, a portion of a REIT, or a qualified REIT subsidiary that is a taxable mortgage pool. The portion of the REIT's assets, held directly or through a qualified REIT subsidiary that qualifies as a taxable mortgage pool is treated as a qualified REIT subsidiary that is not subject to corporate income tax, and the taxable mortgage pool classification does not affect the tax status of the REIT. Rather, the consequences of the taxable mortgage pool classification would generally, except as described below, be limited to the tax liability on the REIT and the REIT's stockholders. The Treasury Department has yet to issue regulations governing the tax treatment of the stockholders of a REIT that owns an interest in a taxable mortgage pool.

A portion of our income from a taxable mortgage pool arrangement, which might be non-cash accrued income, or phantom taxable income, could be treated as excess inclusion income and allocated to our stockholders. Excess inclusion income is an amount, with respect to any calendar quarter, equal to the excess, if any, of (i) income allocable to the holder of a REMIC residual interest or taxable mortgage pool interest over (ii) the sum of an amount for each day in the calendar quarter equal to its ratable portion of the product of (a) the adjusted issue price of the interest at the beginning of the quarter multiplied by (b) 120% of the long-term federal rate (determined on the basis of compounding at the close of each calendar quarter and properly adjusted for the length of such quarter). This non-cash or phantom income would be subject to the distribution requirements that apply to us and could therefore adversely affect our liquidity. See Distribution Requirements.

Our excess inclusion income would be allocated among our 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 federal income tax, (iii) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax treaty, to the extent allocable to most types of foreign stockholders and (iv) in the case of a stockholder that is a REIT, a regulated investment company or common trust fund, would be considered excess inclusion income of such entity.

Excess inclusion income is taxable (at the highest corporate tax rates) to us, rather than our stockholders, to the extent allocable to our shares held in record name by disqualified organizations (generally, tax-exempt entities not subject to unrelated business income tax, including governmental organizations). Nominees who hold our shares on behalf of disqualified organizations are subject to this tax on the portion of our excess inclusion income allocable to the common stock held on behalf of disqualified organizations. A regulated investment

---

## **Table of Contents**

company or other pass-through entity owning our common stock in record name will be subject to tax at the highest corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations. In addition, we will withhold on dividends paid to non-U.S. stockholders with respect to the excess inclusion portion of dividends paid to such shareholders without regard to any treaty exception or reduction in tax rate.

**The manner in which excess inclusion income would be allocated among shares of different classes of stock is not clear under current law. Tax-exempt investors, regulated investment company or REIT investors, foreign investors and taxpayers with net operating losses should consult their tax advisors with respect to excess inclusion income.**

If we own less than 100% of the ownership interests in a subsidiary that is a taxable mortgage pool, or we fail to qualify as a REIT, the foregoing rules would not apply. Rather, the subsidiary would be treated as a corporation for federal income tax purposes, and would potentially be subject to corporate income tax. In addition, this characterization would alter our REIT income and asset test calculations and could adversely affect our compliance with those requirements. We currently do not have, and currently do not intend to form, any subsidiary in which we own some, but less than all, of the ownership interests that are or will become taxable mortgage pools, and we intend to monitor the structure of any taxable mortgage pools in which we have an interest to ensure that they will not adversely affect our qualification as a REIT.

## **Gross Income Tests**

We must satisfy two gross income tests annually to 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;

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 stock 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, other types of interest and dividends, gain from the sale or disposition of stock or securities or any combination of these. Gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business is excluded from both the numerator and the denominator in both income tests. In addition, income and gain from hedging transactions, as defined in Hedging Transactions, that we enter into in the normal course of our business to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets and that are clearly and timely identified as such will be excluded from both the numerator and the denominator for purposes of the 95% gross income test (but will be included in the denominator for purposes of the 75% gross income test). We will monitor the amount of our non-qualifying income and we will manage our investment portfolio to comply at all times with the gross income tests. The following paragraphs discuss the specific application of the gross income tests to us.



---

**Table of Contents**

*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.

Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, 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 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 the date the REIT agreed to originate or acquire 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 exceeds the value of the real estate that is security for the loan.

The interest, original issue discount, and market discount income that we receive from our mortgage-related assets generally, including B notes, will be qualifying income for purposes of both gross income tests. We expect that some of our loans, which we have called mezzanine loans, will not be secured by a direct interest in real property. Instead, such loans will be secured by ownership interests in a non-corporate entity owning real property. In Revenue Procedure 2003-65, the Internal Revenue Service established a safe harbor under which interest from loans secured by a first priority security interest in ownership interests in a partnership or limited liability company owning real property will be treated as qualifying income for both the 75% and 95% gross income tests, and the loans will be treated as qualifying assets for the purposes of the 75% asset test, provided several requirements are satisfied. Some of our mezzanine loans, however, may not qualify for that safe harbor. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive law. In situations where a loan is secured by interests in non-corporate entities but not all of the requirements of the safe harbor are met, the interest income from the loan will be qualifying income for purposes of the 95% gross income test, but potentially will not be qualifying income for purposes of the 75% gross income test. In addition, some of our loans will not be secured by mortgages on real property or interests in real property. Our interest income from those loans will be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. Further, as discussed above, if the fair market value of the real estate securing any of our loans is less than the principal amount of the loan, a portion of the income from that loan will be qualifying income for purposes of the 95% gross income test but not the 75% gross income test.

*Equipment Lease Income.* Any income we receive as lease payments from equipment leases in which we may invest will be qualifying income for purposes of the 95% gross income test only if the lease is considered a financing lease and not a true lease for federal income tax purposes. Although the classification of a lease as a financing lease or a true lease is sometimes a difficult one, where the fixed rents during the base term of the lease are sufficient for the lessor to recover its entire investment in the equipment plus a market interest rate of return, and the lessor is not entitled to any substantial residual value of its equipment, the lease will be characterized as a financing lease. It is expected that all of our equipment leases will be structured in that

---

**Table of Contents**

manner and thus the interest component of the payments received will qualify for the 95% gross income test. In no event will income from equipment leases qualify for the 75% gross income test.

*Fee Income.* We may receive various fees in connection with our operations. The fees will be qualifying income for purposes of both the 75% and 95% gross income tests if they are 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 are not qualifying income for purposes of either gross income test. Any fees earned by Resource TRS, will not be included for purposes of the gross income tests.

*Dividends.* Our share of any dividends received from any corporation (including any TRS, 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 will be qualifying income for purposes of both gross income tests.

We intend to treat certain income inclusions received with respect to our current and contemplated equity investments in non-U.S. TRSs, such as Apidos CDO I and Apidos CDO III, as qualifying income for purposes of the 95% gross income test but not the 75% gross income test. The provisions that set forth what income is qualifying income for purposes of the 95% gross income test provide that gross income derived from dividends, interest and certain other enumerated classes of passive income qualify for purposes of the 95% gross income test. Income inclusions from equity investments in our foreign TRSs are technically neither dividends nor any of the other enumerated categories of income specified in the 95% gross income test for U.S. federal income tax purposes, and there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests. However, based on advice of counsel, we intend to treat such income inclusions, to the extent distributed by a foreign TRS in the year accrued, as qualifying income for purposes of the 95% gross income test. Nevertheless, because this income does not meet the literal requirements of the REIT provisions, it is possible that the IRS could successfully take the position that such income is not qualifying income. In the event that such income was determined not to qualify for the 95% gross income test, we would be subject to a penalty tax with respect to such income to the extent it and other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT.

*Rents from Real Property.* We currently do not intend to acquire any real property with the proceeds of this offering, but we may acquire real property or an interest therein in the future. To the extent that we acquire real property or an interest therein, rents we receive 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. However, an amount received or accrued generally will not be excluded 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 and the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space. 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. However, we may 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

**Table of Contents**

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 its rental income from the related properties.

*Hedging Transactions.* From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Income and gain from hedging transactions will be excluded from gross income for purposes of the 95% gross income test (but will be treated as non-qualifying income for purposes of the 75% gross income test). 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, 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. We will be required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into. To the extent that we hedge for other purposes, or to the extent that a portion of our mortgage loans is not secured by real estate assets (as described below under

Asset Tests ) or in other situations, the income from those transactions will likely be treated as nonqualifying income for purposes of the gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT.

*Prohibited Transactions.* A REIT will incur a 100% tax on the net income 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. 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. Whether a REIT holds an asset primarily for sale to customers in the ordinary course of a trade or business depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. Nevertheless, we will attempt to comply with the terms of safe-harbor provisions in the federal income tax laws prescribing when a sale of real property will not be characterized as a prohibited transaction. We cannot assure you however, that we can comply with the safe-harbor provisions or that we will avoid owning property that may be characterized as property that we hold primarily for sale to customers in the ordinary course of a trade or business. To the extent necessary to avoid the prohibited transactions tax, we will conduct sales of our assets through a TRS.

*Foreclosure Property.* We will be subject to tax at the maximum corporate rate on any income 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. However, gross income from foreclosure property will qualify 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 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.

However, a REIT will not be considered 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 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, or any amount is received or accrued, directly or

## **Table of Contents**

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;

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 which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

*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 qualify for relief under certain provisions of the federal income tax laws. Those relief provisions generally will be available if:

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

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

If the IRS were to determine that we failed the 95% gross income test because income inclusions with respect to our equity investments in foreign TRSs that were distributed by the foreign TRSs during the year such income was accrued are not qualifying income, it is possible that the IRS would not consider our position taken with respect to such income, and accordingly our failure to satisfy the 95% gross income test, to be considered to be due to reasonable cause and not due to willful neglect. If the IRS were to successfully assert this position, we would fail to qualify as a REIT. See *Failure to Qualify*. Accordingly, we cannot predict whether in all circumstances we would qualify for the relief provisions. In addition, 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 amount by which we fail the 75% or 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;

government securities;

interests in real property, including leaseholds and options to acquire real property and leaseholds;

interests in mortgage loans secured by real property;

stock in other REITs;



## Edgar Filing: Resource Capital Corp. - Form S-11/A

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 consists of assets that are qualifying real estate-related assets under the 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.

Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer's securities may not exceed 5% of the value of our total assets.

Third, we may not own more than 10% of the voting power or value of any one issuer's outstanding securities.

**Table of Contents**

Fourth, no more than 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.

For purposes of the second and third asset tests, the term securities does not include stock in another REIT, equity or debt securities of a qualified REIT subsidiary or TRS, mortgage loans 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 (i.e., a TRS in which we own directly or indirectly more than 50% of the voting power or value of the stock) 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 12 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.

Any security issued by a REIT.

Any debt instrument issued by an entity treated as a partnership for federal income tax purposes to the extent of our interest as a partner in the partnership.

Any debt instrument issued by an entity treated as a partnership for federal income tax purposes not described above if at least 75% of the partnership's gross income, excluding income from prohibited transaction, is qualifying income for purposes of the 75% gross income test described above in Requirements for Qualification Gross Income Tests.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

We hold, and it is possible that we may hold in the future, real estate mezzanine loans that are secured by equity interests in a non-corporate entity that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan to such a non-corporate entity, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from it will be treated as qualifying mortgage interest for purposes of the 75% gross income test described above. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Moreover, any real estate mezzanine loans that we acquire may not meet all of the requirements for reliance on this safe harbor.

---

**Table of Contents**

We believe that most of the residential mortgage loans (including the B notes) and mortgage-backed securities that we expect to hold will be qualifying assets for purposes of the 75% asset test. For purposes of these rules, however, if the outstanding principal balance of a mortgage loan exceeds the fair market value of the real property securing the loan, a portion of such loan likely will not be a qualifying real estate asset under the federal income tax laws. Although the law on the matter is not entirely clear, it appears that the non-qualifying portion of that mortgage loan will be equal to the portion of the loan amount that exceeds the value of the associated real property that is security for that loan. Our debt securities issued by other REITs or corporations that are not secured by mortgages on real property will not be qualifying assets for purposes of the 75% asset test. We believe that any stock that we will acquire in other REITs will be qualifying assets for purposes of the 75% asset test. However, if a REIT in which we own stock fails to qualify as a REIT in any year, the stock in such REIT will not be a qualifying asset for purposes of the 75% asset test. Instead, we would be subject to the second, third, fourth, and fifth assets tests described above with respect to our investment in such a disqualified REIT. We will also be subject to those assets tests with respect to our investments in any non-REIT C corporations for which we do not make a TRS election. We anticipate that value of our investment in Resource TRS, together with the value of our interest in the securities of our TRS securitizations such as Apidos CDO I and Apidos CDO III, will be less than 20% of the value of our total assets.

We will monitor the status of our assets for purposes of the various asset tests and will seek to manage our portfolio to comply at all times with such tests. There can be no assurances, however, that we will be successful in this effort. In this regard, to determine our compliance with these requirements, we will need to estimate the value of the real estate securing our mortgage loans at various times. In addition, we will have to value our investment in our other assets to ensure compliance with the asset tests. Although we will seek to be prudent in making these estimates, there can be no assurances 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% and the other asset tests and 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 if:

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.

In the event that we violate the second or third asset tests described above at the end of any calendar quarter, we will not lose our REIT qualification if the failure is de minimis (up to the lesser of 1% of our assets or \$10 million) and we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter. In the event of a failure of any of the asset tests (other than a de minimis failure of the 5% and 10% asset tests described in the preceding sentence), as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT qualification if we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter and pay a tax equal to the greater of \$50,000 or 35% of the net income from the nonqualifying assets during the period in which we failed to satisfy the asset tests.

To avoid an inadvertent violation of the second, third or fourth asset tests described above, we may form a trust, the sole beneficiary of which will be Resource TRS. Upon an uncured violation of the second, third or fourth asset tests described above, the asset or assets causing the violation would be deemed automatically to have been transferred to the trust before the occurrence of the violation. Once a deemed transfer occurs, we would have no further ownership interest in the assets transferred, and all income subsequently accruing with respect to the transferred assets would be reported on Resource TRS's tax returns and would be subject to federal, state and local income tax. Similar trusts are currently under review by the IRS and there can be no assurance that the IRS would respect the deemed transfer of assets to the trust.

---

## **Table of Contents**

We currently believe that the mortgage-related assets, securities and other assets that we expect to hold will satisfy the foregoing asset test requirements. However, no independent appraisals will be obtained to support our conclusions as to the value of our assets and securities, or in many cases, the real estate collateral for the mortgage loans that we hold. Moreover, the values of some assets, such as the securities of some of our TRSs, may not be susceptible to a precise determination. As a result, there can be no assurance 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 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 make the distribution 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 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 receive in a taxable year. See Taxation of Taxable U.S. Stockholders. If we so elect, we will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. We intend to make timely distributions 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 income 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:

## Edgar Filing: Resource Capital Corp. - Form S-11/A

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 if any of our MBS 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.

## **Table of Contents**

We will include in our taxable income for federal income tax purposes, items of income from certain of our CDO entities, such as Apidos CDO I and Apidos CDO III, in which we hold an interest, even in the absence of actual cash distributions.

We may recognize taxable market discount income when we receive the proceeds from the disposition of, or principal payments on, loans that have a stated redemption price at maturity that is greater than our tax basis in those loans, although such proceeds often will be used to make non-deductible principal payments on related borrowings.

We may recognize phantom taxable income from any residual interests in REMICs or retained ownership interests in mortgage loans subject to collateralized mortgage obligation debt.

Although several types of non-cash income are excluded in determining the annual distribution requirement, we will incur corporate income tax and 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 or issue additional common or preferred stock.

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 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 stock. We intend to comply with these requirements.

## **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 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 and accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income. Subject to certain limitations of the federal income tax laws, corporate stockholders might be eligible for the dividends received deduction, and individual and certain non-corporate trust and estate stockholders may be eligible for the reduced federal income tax rate of 15% 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 REIT Subsidiaries**

As described above, we may own up to 100% of the stock of one or more TRSs. A TRS, other than certain foreign TRSs, is a fully taxable corporation that may earn income that would not be qualifying income if earned

**Table of Contents**

directly by us. A corporation will not qualify as a TRS if it directly or indirectly operates or manages any hotels or health care facilities or provides rights to any brand name under which any hotel or health care facility is operated. We and our corporate subsidiary must elect for the subsidiary to be treated as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of our assets may consist of securities of one or more TRSs, and no more than 25% of the value of our 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 TRS rules limit the deductibility of interest paid or accrued by a TRS to us to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and us or our tenants that are not conducted on an arm's-length basis. We have made an election to treat Resource TRS as a TRS. In addition, we have made an election to treat Apidos CDO I and Apidos CDO III as TRSs. We believe that all transactions between us and Resource TRS and any other TRS that we form or acquire will be conducted on an arm's-length basis.

**Taxation of Taxable U.S. Stockholders**

The term "U.S. stockholder" means a holder of our common stock that, for United States 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 federal income tax purposes holds our common stock, the 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. If you are a partner in a partnership holding our common stock, you should consult your tax advisor regarding the consequences of the purchase, ownership and disposition of our common stock by the partnership.

As long as we qualify as a REIT, a taxable "U.S. stockholder" 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. stockholder will not qualify for the dividends received deduction generally available to corporations. In addition, dividends paid to a U.S. stockholder generally will not qualify for the 15% tax rate for qualified dividend income. The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the maximum tax rate for qualified dividend income received by noncorporate taxpayers to 15% for tax years 2003 through 2008. Under the Tax Increase Prevention and Reconciliation Act of 2005 which was signed into law on May 17, 2006, this 15% rate was extended through 2010. Without future congressional action, the maximum tax rate for such taxpayers on qualified dividend income will move to 39.6% in 2011. Qualified dividend income generally includes dividends paid to individuals, trusts and estates by domestic C corporations and certain qualified foreign corporations. Because we are not generally subject to 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 15% rate on qualified dividend income. As a result, our ordinary REIT dividends will continue to be taxed at the higher tax rate applicable to ordinary income. Currently, the highest marginal individual income tax rate on ordinary income is 35%. However, the 15% tax rate for qualified dividend income will apply to our ordinary REIT dividends attributable to dividends received by us from non-REIT corporations, such as our domestic TRSs (but generally not from our TRSs organized as Cayman organizations), and to the extent attributable to income upon



---

**Table of Contents**

which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income). In general, to qualify for the reduced tax rate on qualified dividend income, a stockholder must hold our common stock for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our common stock became ex-dividend.

A U.S. stockholder generally will recognize distributions that we designate as capital gain dividends as long-term capital gain without regard to the period for which the U.S. stockholder has held our common stock. A corporate U.S. stockholder, however, may be required to treat up to 20% of certain capital gain dividends as ordinary income.

A U.S. stockholder 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. stockholder's common stock. Instead, the distribution will reduce the adjusted basis of such common stock. A U.S. stockholder will recognize a distribution in excess of both our current and accumulated earnings and profits and the U.S. stockholder's adjusted basis in his or her 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. stockholder. In addition, if we declare a distribution in October, November, or December of any year that is payable to a U.S. stockholder of record on a specified date in any such month, such distribution will be treated as both paid by us and received by the U.S. stockholder on December 31 of such year, provided that we actually pay the distribution during January of the following calendar year.

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 common stock will not be treated as passive activity income and, therefore, stockholders generally will not be able to apply any passive activity losses, such as losses from certain types of limited partnerships in which the stockholder is a limited partner, against such income. In addition, taxable distributions from us and gain from the disposition of our 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, stockholders at times may be required to pay 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 federal income tax purposes. Taking into account the time value of money, this acceleration of federal income tax liabilities may reduce a stockholder'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 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 stockholder will decrease. We will consider the potential effects of phantom income on our taxable stockholders in managing our investments.

Any excess inclusion income (See Requirements for Qualification Taxable Mortgage Pools for a definition of excess inclusion income) that we recognize generally will be allocated among our stockholders to the extent that it exceeds our undistributed REIT taxable income in a particular year. A stockholder's share of excess inclusion income would not be allowed to be offset by any net operating losses or other deductions otherwise available to the stockholder.

---

## **Table of Contents**

### **Taxation of U.S. Stockholders on the Disposition of Common Stock**

In general, a U.S. stockholder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of our common stock as long-term capital gain or loss if the U.S. stockholder has held the common stock for more than one year and otherwise as short-term capital gain or loss. In general, a U.S. stockholder 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. stockholder's adjusted tax basis will equal the U.S. stockholder's acquisition cost, increased by the excess of net capital gains deemed distributed to the U.S. stockholder (discussed above) less tax deemed paid on it and reduced by any returns of capital. However, a U.S. stockholder must treat any loss upon a sale or exchange of common stock held by such stockholder 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. stockholder treats as long-term capital gain. All or a portion of any loss that a U.S. stockholder realizes upon a taxable disposition of our common stock may be disallowed if the U.S. stockholder purchases other 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 highest marginal individual income tax rate currently is 35% (which rate will apply for the period from January 1, 2003 to December 31, 2010). The maximum tax rate on long-term capital gain applicable to individuals, trusts and estates is 15% for sales and exchanges of assets held for more than one year occurring through December 31, 2010. The maximum tax rate on long-term capital gain from the sale or exchange of section 1250 property, or depreciable real property, is 25% to the extent that such gain would have been treated as ordinary income if the property were section 1245 property. With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are deemed to distribute, we generally may designate whether such a distribution is taxable to our individual, trust and estate stockholders at a 15% or 25% rate. 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. 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 Backup Withholding**

We will report to our stockholders and to the IRS the amount of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding at a current rate of 28% with respect to distributions unless the 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 stockholder who does not provide us 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 stockholder's income tax liability. In addition, we may be required to withhold a portion of capital gain distributions to any stockholders who fail to certify their non-foreign status to us. For a discussion of the backup withholding rules as applied to non-U.S. stockholders. See Taxation of Non-U.S. Stockholders.

---

## Table of Contents

### **Taxation of Tax-Exempt Stockholders**

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income, or UBTI. While many investments in real estate generate UBTI, the IRS has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI so long as the exempt employee pension trust does not otherwise use the shares of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that we distribute to tax-exempt stockholders generally should not constitute UBTI. However, if a tax-exempt stockholder were to finance its acquisition of common stock with debt, a portion of the income that it receives from us would constitute UBTI pursuant to the debt-financed property rules. Moreover, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under special provisions of the federal income tax laws are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from us as UBTI. Furthermore, a tax-exempt stockholder's share of any excess inclusion income that we recognize would be subject to tax as UBTI. Finally, in certain circumstances, a qualified employee pension or profit sharing trust that owns more than 10% of our stock must treat a percentage of the dividends that it receives from us as UBTI. Such percentage is equal to the gross income we derive from an unrelated trade or business, determined as if we were a pension trust, divided by our total gross income for the year in which we pay the dividends. That rule applies to a pension trust holding more than 10% of our stock only if:

the percentage of our dividends that the tax-exempt trust must treat as UBTI is at least 5%;

we qualify as a REIT by reason of the modification of the rule requiring that no more than 50% of our stock be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding our stock in proportion to their actuarial interests in the pension trust; and

either:

one pension trust owns more than 25% of the value of our stock; or

a group of pension trusts individually holding more than 10% of the value of our stock collectively owns more than 50% of the value of our stock.

### **Taxation of Non-U.S. Stockholders**

The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships, and other foreign stockholders are complex. This section is only a summary of such rules. **We urge non-U.S. stockholders to consult their own tax advisors to determine the impact of federal, state, and local income tax laws on ownership of our common stock, including any reporting requirements.**

A non-U.S. stockholder that receives a distribution 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. However, if a distribution is treated as effectively connected with the non-U.S. stockholder's conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to federal income tax on the distribution at graduated rates, in the same manner as U.S. stockholders are taxed on distributions and also may be subject to the 30% branch profits tax in the case of a corporate non-U.S. stockholder. We plan to withhold U.S. income tax at the rate of 30% on the gross amount of any distribution paid to a non-U.S. stockholder unless either:

a lower treaty rate applies and the non-U.S. stockholder files an IRS Form W-8BEN evidencing eligibility for that reduced rate with us, or

the non-U.S. stockholder files an IRS Form W-8ECI with us claiming that the distribution is effectively connected income.

---

**Table of Contents**

However, reduced treaty rates are not available to the extent that the income allocated to the non-U.S. stockholder is excess inclusion income. Our excess inclusion income generally will be allocated among our stockholders to the extent that it exceeds our undistributed REIT taxable income in a particular year.

A non-U.S. stockholder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the excess portion of the distribution does not exceed the adjusted basis of its common stock. Instead, the excess portion of the distribution will reduce the adjusted basis of that common stock. A non-U.S. stockholder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the adjusted basis of the common stock if the non-U.S. stockholder otherwise would be subject to tax on gain from the sale or disposition of its 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, we normally will withhold tax on the entire amount of any distribution at the same rate as we would withhold on a dividend. However, a non-U.S. stockholder may obtain a refund from the IRS of amounts that we withhold 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. stockholder will 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 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 does not generally include mortgage loans or MBS. As a result, we do not anticipate that we will generate material amounts of gain that would be subject to FIRPTA. Under the FIRPTA rules, a non-U.S. stockholder 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. stockholder. A non-U.S. stockholder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a non-resident alien individual. A non-U.S. corporate stockholder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. We must withhold 35% of any such distribution that we could designate as a capital gain dividend. A non-U.S. stockholder, may receive a credit against our tax liability for the amount we withhold. However, if our common stock becomes regularly traded on an established securities market in the future, capital gain distributions 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, as long as the non-U.S. stockholder does not own more than 5% of that class of our stock during the taxable year. As a result, non-U.S. stockholders 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.

In the unlikely event that at least 50% of the assets we hold were determined to be United States real property interests, gains from the sale of our common stock by a non-U.S. stockholder could be subject to a FIRPTA tax. However, even if that event were to occur, a non-U.S. stockholder generally would not incur tax under FIRPTA on gain from the sale of our common stock if we were a domestically-controlled REIT. A domestically-controlled REIT is 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. stockholders. We cannot assure you that this test will be met.

Even if we do not qualify as a domestically-controlled REIT at the time the non-U.S. stockholder sells our common stock, the gain from such a sale by such a non-U.S. stockholder will not be subject to tax under FIRPTA, provided that the non-U.S. stockholder owned, actually or constructively, 5% or less of our common stock at all times during a specified testing period.

## **Table of Contents**

If the gain on the sale of the common stock were taxed under FIRPTA, a non-U.S. stockholder would be taxed on that gain in the same manner as U.S. stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Furthermore, a non-U.S. stockholder generally will incur tax on gain not subject to FIRPTA if:

the gain is effectively connected with the non-U.S. stockholder's U.S. trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain, or

the non-U.S. stockholder 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 United States, in which case the non-U.S. stockholder will incur a 30% tax on his or her capital gains.

### **Sunset of Reduced Tax Rate Provisions**

Several of the tax considerations described herein are subject to a sunset provision. The sunset provisions generally provide that for taxable years beginning after December 31, 2010, certain provisions that are currently in the Internal Revenue Code will revert back to a prior version of those provisions. These provisions include provisions related to the reduced maximum income tax rate for long-term capital gains of 15% (rather than 20%) for taxpayers taxed at individual rates, the application of the 15% tax rate to qualified dividend income, and certain other tax rate provisions described herein. The impact of this reversion is not discussed herein. Consequently, prospective stockholders should consult their own tax advisors regarding the effect of sunset provisions on an investment in our common stock.

### **State and Local Taxes**

We and/or our stockholders may be subject to taxation by various states and localities, including those in which we or a stockholder transacts business, owns property or resides. The state and local tax treatment may differ from the federal income tax treatment described above. Consequently, stockholders should consult their own tax advisors regarding the effect of state and local tax laws upon an investment in our common stock.

**Table of Contents****UNDERWRITING**

Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co. Inc. and J.P. Morgan Securities Inc. are acting as the underwriters in this offering. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

<b>Underwriter</b>	<b>Number of shares</b>
Citigroup Global Markets Inc.	
Credit Suisse Securities (USA) LLC	
Friedman, Billings, Ramsey & Co., Inc.	
J.P. Morgan Securities Inc.	
<b>Total</b>	<b>6,000,000</b>

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

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to dealers at the public offering price less a concession not to exceed \$ \_\_\_\_\_ per share. The underwriters may allow, and dealers may reallow, a concession not to exceed \$ \_\_\_\_\_ per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the underwriters may change the public offering price and the other selling terms.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 900,000 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

We have agreed, for a period of 90 days after the date of this prospectus, that we will not offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of our affiliates or any person in privity with us), directly or indirectly, including the filing (or participation in the filing) of a registration statement with the SEC (except in the case of the filing of a shelf registration statement or any amendments or supplements thereto pursuant to the registration rights agreement we entered into in connection with our March 2005 private offering) in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, any shares of our common stock, or any securities convertible into, or exercisable, or exchangeable for, shares of our common stock, or publicly announce an intention to effect such transaction, without the prior written consent of Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc. and J.P. Morgan Securities Inc., except that we may issue shares upon exercise of such options, warrants or redemption of such stock-based awards. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in each case the lock-up period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc. and J.P. Morgan Securities Inc. waive, in writing, such extension.

---

**Table of Contents**

Our officers and directors, members of our investment committee, our Manager, Resource America and their affiliates have also agreed, subject to certain exceptions, that they will not offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise), directly or indirectly, including the filing (or participation in the filing) of a registration statement with the SEC (except in the case of the filing of a shelf registration statement or any amendments or supplements thereto pursuant to the registration rights agreement we entered into in connection with our March 2005 private offering) in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, and the rules and regulations of the SEC promulgated thereunder with respect to, any shares of our capital stock or any securities convertible into, or exercisable or exchangeable for such capital stock, or publicly announce an intention to effect any such transaction, without the prior written consent of Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc. and J.P. Morgan Securities Inc., for a period of 90 days following the date of this prospectus. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in each case the lock-up period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc. and J.P. Morgan Securities Inc. waive, in writing, such extension. Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc. and J.P. Morgan Securities Inc. may, in their sole discretion, release all or any portion of the securities subject to these lock-up arrangements at any time without notice or stockholder approval.

Each underwriter has represented, warranted and agreed that:

it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ( FSMA )) received by it in connection with the issue or sale of any shares included in this offering in circumstances in which section 21(1) of the FSMA does not apply to us;

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares included in this offering in, from or otherwise involving the United Kingdom;

the offer in The Netherlands of the shares included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises);

(1) it has not offered or sold and will not offer or sell our common stock in Hong Kong SAR by means of this prospectus or any other document, other than to persons whose ordinary business involves buying or selling shares or debentures, whether as principal or agent or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong SAR), and (2) unless it is a person who is permitted to do so under the securities laws of Hong Kong SAR, it has not issued or held for the purpose of issue in Hong Kong SAR and will not issue or hold for the purpose of issue in Hong Kong SAR this prospectus, any other offering material or any



**Table of Contents**

advertisement, invitation or document relating to the common stock, otherwise than with respect to common stock intended to be disposed of to persons outside Hong Kong SAR or only to persons whose business involves the acquisition, disposal, or holding of securities, whether as principal or as agent;

the shares offered in this prospectus have not been registered under the Securities and Exchange Law of Japan, and it has not offered or sold and will not offer or sell, directly or indirectly, the common stock in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (2) in compliance with any other applicable requirements of Japanese law; and

this prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the common stock, may not be circulated or distributed, nor may the common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA ), (2) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

The common stock is listed on the New York Stock Exchange under the symbol RSO.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares of common stock.

	Paid by Resource Capital	
	No exercise	Full exercise
Per share	\$	\$
Total	\$	\$

In connection with the offering, Citigroup Global Markets Inc., on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of shares made in an amount up to the number of shares represented by the underwriters over-allotment option. In determining the source of shares to close out the covered syndicate 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. Transactions to close out the covered syndicate short involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make naked short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup Global Markets Inc. repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would

## Table of Contents

otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total expenses of this offering will be \$ .

The underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

We have purchased and will in the future likely purchase investments, including ABS-RMBS, other ABS and syndicated loans, from or issued by affiliates of underwriters in this offering or underwritten by underwriters in this offering. As of September 30, 2006, an aggregate of approximately \$862.5 million in carrying value, or 38.9%, of our portfolio, had been issued by affiliates of the underwriters in this offering or underwritten by underwriters in this offering, including Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Friedman Billings Ramsey & Co., Inc. and J.P. Morgan Securities Inc.

Credit Suisse Securities (USA) LLC, one of our underwriters, has entered into repurchase agreements with us under which \$619.4 million was outstanding at September 30, 2006. A portion of the indebtedness under these repurchase agreements has been repaid in connection with the sale of our agency ABS-RMBS sale that settled on October 2, 2006.

Credit Suisse International, an affiliate of Credit Suisse Securities (USA) LLC, entered into four interest rate swaps with us between July 27, 2006 and September 29, 2006 in an aggregate amount of \$100.7 million. These swaps mature between May 25, 2016 and September 1, 2016.

Credit Suisse Securities (USA) LLC also acted as the exclusive structurer and placement agent for us in connection with the Ischus CDO II transaction and received a fee of approximately \$4.0 million and reimbursement of \$12,000 of expenses in connection with the transaction. Credit Suisse Securities (USA) LLC also acted as the exclusive structurer and placement agent for us in connection with the Apidos CDO I transaction and received a fee of approximately \$3.6 million and reimbursement of approximately \$88,000 of expenses in connection with the transaction. Credit Suisse Securities (USA) LLC also acted as the co-manager in connection with the Resource Real Estate Funding CDO 2006-1 transaction, and received co-manager fees of \$50,000.

Citigroup Financial Products, Inc., an affiliate of one of our underwriters, acted as the exclusive structurer and placement agent for us in connection with the Apidos CDO III transaction and received a fee of \$2.8 million and reimbursement of \$20,000 of expenses in connection with the transaction. In addition, Citigroup, Inc., an affiliate of one of our underwriters, owns 11,775 shares of our common stock.

J.P. Morgan Securities Inc., one of our underwriters, has entered into a master repurchase agreement with us under which nothing was outstanding at September 30, 2006.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

**Table of Contents**

**LEGAL MATTERS**

Certain legal matters in connection with this offering will be passed on for us by Ledgewood. DLA Piper US LLP will pass upon the validity of the shares of common stock being offered hereby and certain other matters under Maryland law for us. Clifford Chance US LLP will pass upon the validity of the shares of common stock being offered hereby for the underwriters.

**EXPERTS**

Our consolidated financial statements as of December 31, 2005 included in this prospectus have been audited by Grant Thornton LLP, independent registered public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-11, including exhibits and schedules filed with the registration statement of which this prospectus is a part, under the Securities Act with respect to the shares of common stock to be sold in this offering. This prospectus does 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 of common stock to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement, which may be examined without charge at the public reference room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0300. Copies of all or a portion of the registration statement may be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>PAGE</b>
<b>Consolidated Unaudited Financial Statements</b>	
<u>Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>	F-2
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2006 and for the Period from March 8, 2005 (Date Operations Commenced) to September 30, 2005</u>	F-3
<u>Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2006</u>	F-4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and for the Period from March 8, 2005 (Date Operations Commenced) to September 30, 2005</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-7
<b>Consolidated Audited Financial Statements</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	F-26
<u>Consolidated Balance Sheet as of December 31, 2005</u>	F-27
<u>Consolidated Statement of Operations for the Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005</u>	F-28
<u>Consolidated Statement of Changes in Stockholders' Equity for the Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005</u>	F-29
<u>Consolidated Statement of Cash Flows for the Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005</u>	F-30
<u>Notes to Consolidated Financial Statements</u>	F-31

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	September 30,	December 31,
	2006 (Unaudited)	2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,505	\$ 17,729
Restricted cash	29,054	23,592
Receivables on investment securities sold	753,195	
Due from broker		525
Available-for-sale securities, pledged as collateral, at fair value	395,884	1,362,392
Available-for-sale securities, at fair value		28,285
Loans	1,054,602	569,873
Direct financing leases and notes, net of unearned income	91,909	23,317
Investments in unconsolidated trusts	1,548	
Derivatives, at fair value		3,006
Interest receivable	11,369	9,337
Accounts receivable	503	183
Principal paydown receivables	14,668	5,805
Other assets	3,142	1,503
Total assets	\$ 2,369,379	\$ 2,045,547
<b>LIABILITIES</b>		
Repurchase agreements, including accrued interest of \$1,012 and \$2,104	\$ 770,167	\$ 1,068,277
Collateralized debt obligations ( CDOs ) (net of debt issuance costs of \$18,730 and \$10,093)	1,206,751	687,407
Warehouse agreement		62,961
Secured term facility	87,080	
Unsecured revolving credit facility		15,000
Distribution payable	6,594	5,646
Accrued interest expense	11,357	9,514
Unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities	51,548	
Management and incentive fee payable related party	614	896
Derivatives, at fair value	3,094	
Security deposits	868	
Accounts payable and accrued liabilities	1,319	513
Total liabilities	2,139,392	1,850,214
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$0.001: 100,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value \$0.001: 500,000,000 shares authorized; 17,821,434 and 15,682,334 shares issued and outstanding (including 234,224 and 349,000 restricted shares)	18	16
Additional paid-in capital	247,934	220,161
Deferred equity compensation	(1,364)	(2,684)
Accumulated other comprehensive loss	(3,951)	(19,581)
Distributions in excess of earnings	(12,650)	(2,579)

Edgar Filing: Resource Capital Corp. - Form S-11/A

Total stockholders' equity	229,987	195,333
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,369,379</b>	<b>\$ 2,045,547</b>

See accompanying notes to consolidated financial statements.

F-2

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Period from March 8, 2005  (Date Operations Commenced) to September 30,	
	2006	2005	Nine Months Ended September 30,	2005
<b>REVENUES</b>				
Net interest income:				
Interest income from securities available-for-sale	\$ 16,248	\$ 16,248	\$ 48,673	\$ 26,741
Interest income from loans	19,905	4,864	46,625	6,322
Interest income other	2,995	484	8,179	1,627
Total interest income	39,148	21,596	103,477	34,690
Interest expense	30,855	15,595	78,576	23,736
Net interest income	8,293	6,001	24,901	10,954
<b>OTHER (LOSS) REVENUE</b>				
Net realized (losses) gains on investments	(8,314)	192	(8,853)	178
Other income	384		391	
Total other (loss) revenue	(7,930)	192	(8,462)	178
<b>EXPENSES</b>				
Management fees related party	917	822	3,147	1,839
Equity compensation related party	798	836	1,620	1,873
Professional services	480	222	1,266	344
Insurance	126	122	372	273
General and administrative	443	415	1,220	795
Total expenses	2,764	2,417	7,625	5,124
<b>NET (LOSS) INCOME</b>	\$ (2,401)	\$ 3,776	\$ 8,814	\$ 6,008
<b>NET (LOSS) INCOME PER SHARE BASIC</b>	\$ (0.14)	\$ 0.25	\$ 0.51	\$ 0.39
<b>NET (LOSS) INCOME PER SHARE DILUTED</b>	\$ (0.14)	\$ 0.24	\$ 0.51	\$ 0.39
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC</b>				
	17,585,171	15,333,334	17,261,091	15,333,334

Edgar Filing: Resource Capital Corp. - Form S-11/A

<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DILUTED</b>	17,585,171	15,458,133	17,388,566	15,458,133
<b>DIVIDENDS DECLARED PER SHARE</b>	\$ 0.37	\$ 0.20	\$ 1.06	\$ 0.20

See accompanying notes to consolidated financial statements.

F-3



**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

**NINE MONTHS ENDED SEPTEMBER 30, 2006**

(in thousands, except share data)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Deferred Equity Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Comprehensive Income	Total Stockholders' Equity
	Shares	Amount							
Balance, January 1, 2006	15,682,334	\$ 16	\$ 220,161	\$ (2,684)	\$ (19,581)	\$	\$ (2,579)	\$ (19,581)	\$ 195,333
Net proceeds from common stock offerings	2,120,800	2	29,663						29,665
Offering costs			(2,384)						(2,384)
Stock based compensation	18,300		254	(60)					194
Stock based compensation, fair value adjustment			240	(240)					
Amortization of stock based compensation				1,620					1,620
Net income						8,814		8,814	8,814
Available-for-sale securities, fair value adjustment					21,847			21,847	21,847
Designated derivatives, fair value adjustment					(6,217)			(6,217)	(6,217)
Distributions on common stock						(8,814)	(10,071)		(18,885)
Comprehensive income								\$ 4,863	
Balance, September 30, 2006	17,821,434	\$ 18	\$ 247,934	\$ (1,364)	\$ (3,951)	\$	\$ (12,650)		\$ 229,987

See accompanying notes to consolidated financial statements.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	Nine Months Ended	Period from March 8, 2005  (Date Operations Commenced) to September 30, 2005
	September 30, 2006	September 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 8,814	\$ 6,008
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	250	
Amortization of discount on investments and notes	(362)	(259)
Amortization of debt issuance costs	1,094	183
Amortization of stock-based compensation	1,620	1,873
Non-cash incentive compensation to the manager	108	
Net realized gain on derivative instruments	(3,453)	
Net realized loss (gain) on investments	11,427	(178)
Changes in operating assets and liabilities:		
Increase in restricted cash	(5,463)	
Decrease (increase) in due from broker	525	(6,635)
Increase in interest receivable, net of purchased interest	(2,102)	(7,968)
Increase in accounts receivable	(368)	
Decrease (increase) in principal paydowns receivable	2,801	(4,701)
Increase in other assets	(1,873)	(1,166)
Increase in accrued interest expense	750	11,587
(Decrease) increase in management and incentive fee payable	(196)	549
Increase in security deposits	868	
Increase in accounts payable and accrued liabilities	844	613
Net cash provided by (used in) operating activities	15,284	(94)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of securities available-for-sale	(8,939)	(1,538,995)
Principal payments received on securities available-for-sale	117,402	79,230
Proceeds from sale of securities available-for-sale	131,577	5,483
Purchase of loans	(743,113)	(470,151)
Principal payments received on loans	154,764	9,630
Proceeds from sale of loans	103,793	58,079
Purchase of direct financing leases and notes	(97,524)	(25,097)
Proceeds from and payments received on direct financing leases and notes	29,509	
Purchase of property and equipment	(6)	
Net cash used in investing activities	(312,537)	(1,881,821)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Net proceeds from issuances of common stock (net of offering costs of \$2,384 and \$566)	27,281	214,784
Proceeds from borrowings:		
Repurchase agreements	7,060,816	5,494,638
Collateralized debt obligations	527,980	689,500
Warehouse agreements	159,616	572,927
Secured term facility	109,333	
Unsecured credit facility	21,000	

F-5

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(in thousands)

(Unaudited)

	Nine Months Ended	Period from March 8, 2005  (Date Operations Commenced) to  September 30,
	September 30,  2006	September 30,  2005
Payments on borrowings:		
Repurchase agreements	(7,357,834)	(4,436,030)
Warehouse agreements	(222,577)	(537,672)
Secured term facility	(22,253)	
Unsecured revolving credit facility	(36,000)	
Proceeds from issuance of unsecured junior subordinated debentures to subsidiary trusts issuing preferred securities	50,000	
Settlement of derivative instruments	3,335	
Payment of debt issuance costs	(9,731)	(10,554)
Distributions paid on common stock	(17,937)	(3,136)
Net cash provided by financing activities	293,029	1,984,457
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,224)</b>	<b>102,542</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>17,729</b>	
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 13,505</b>	<b>\$ 102,542</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Distributions on common stock declared but not paid	\$ 6,594	\$
Unsettled security sales receivables on investment securities sold	\$ 753,195	\$
Unsettled security sales principal paydown receivables	\$ 14,481	\$
Unsettled security purchases due to broker	\$	\$ 3,000
Issuance of restricted stock	\$	\$ 5,393
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Interest expense paid in cash	\$ 107,195	\$ 17,960

See accompanying notes to consolidated financial statements.

---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006**

**(Unaudited)**

**NOTE 1 ORGANIZATION AND BASIS OF QUARTERLY PRESENTATION**

Resource Capital Corp. and subsidiaries (the "Company") was incorporated in Maryland on January 31, 2005 and commenced its operations on March 8, 2005 upon receipt of the net proceeds from a private placement of shares of its common stock. The Company's principal business activity is to purchase and manage a diversified portfolio of commercial real estate-related assets and commercial finance assets. The Company's investment activities are managed by Resource Capital Manager, Inc. ("Manager") pursuant to a management agreement ("Management Agreement"). The Manager is a wholly owned indirect subsidiary of Resource America, Inc. ("RAI") (Nasdaq: REXI).

The consolidated financial statements and the information and tables contained in the notes to the consolidated financial statements are unaudited. However, in the opinion of management, these interim financial statements include all adjustments necessary to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included elsewhere in this prospectus. The results of operations for the three and nine months ended September 30, 2006 may not necessarily be indicative of the results of operations for the full year ending December 31, 2006.

Certain reclassifications have been made to the 2005 consolidated financial statements to conform to the 2006 presentation.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Income Taxes**

For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by the Company with respect to its interest in Resource TRS, Inc. ("Resource TRS"), a domestic taxable real estate investment trust ("REIT") subsidiary, because it is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code of 1986, as amended. As of September 30, 2006, Resource TRS did not have any taxable income.

Apidos CDO I and Apidos CDO III, the Company's foreign taxable REIT subsidiaries, are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands, and are generally exempt from federal and state income tax at the corporate level because their activities in the United States are limited to trading in stock and securities for their own account. Therefore, despite their status as taxable REIT subsidiaries, they generally will not be subject to corporate tax on their earnings and no provision for income taxes is required; however, because they are controlled foreign corporations, the Company will generally be required to include Apidos CDO I's and Apidos CDO III's current taxable income in its calculation of REIT taxable income.

**Allowance and Provision for Loan Losses**

At September 30, 2006, all of the Company's loans are current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and the observable secondary market prices, the Company did not identify any loans that exhibit characteristics indicating that impairment has occurred. Accordingly, as of September 30, 2006, the Company had not recorded an allowance for loan losses.

---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

**Stock Based Compensation**

The Company has adopted Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share Based Payment, as of January 1, 2006. Issuances of restricted stock and options are accounted for using the fair value based methodology prescribed by SFAS No. 123(R) whereby the fair value of the award is measured on the grant date and recorded in stockholders' equity through an increase to additional paid-in capital and an offsetting entry to deferred equity compensation (a contra-equity account). For issuances to the Company's Manager, the unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. For issuance to the Company's four non-employee directors, the amount is not remeasured under the fair value-based method. The deferred compensation for each of these issuances is amortized over the service period and included in equity compensation expense (see Note 8).

**Variable Interest Entities**

During July 2005, the Company entered into warehouse and master participation agreements with an affiliate of Citigroup Global Markets Inc. ( Citigroup ) providing that Citigroup will fund the purchase of loans by Apidos CDO III. On May 9, 2006, the Company terminated its Apidos CDO III warehouse agreement with Citigroup upon the closing of the CDO. The warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO III. The Company owns 100% of the equity issued by Apidos CDO III and is deemed to be the primary beneficiary. As a result, the Company consolidated Apidos CDO III at September 30, 2006.

**Accounting for Certain Mortgage-Backed Securities and Related Repurchase Agreements**

In certain circumstances, the Company has purchased debt investments from a counterparty and subsequently financed the acquisition of those debt investments through repurchase agreements with the same counterparty. The Company currently records the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated statements of operations. However, under a certain technical interpretation of SFAS 140, Accounting for Transfers and Servicing of Financial Assets, such transactions may not qualify as a purchase. Management of the Company believes, and it is industry practice, that it is accounting for these transactions in an appropriate manner. However, the result of this technical interpretation would prevent the Company from presenting the debt investments and repurchase agreements and the related interest income and interest expense on a gross basis on the Company's consolidated financial statements. Instead, the Company would present the net investment in these transactions with the counterparty as a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of September 30, 2006, the Company had no transactions in mortgage-backed securities where debt instruments were financed with the same counterparty.

**Interest Rate Risk**

The primary market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. During periods of changing interest rates, interest rate mismatches could negatively impact the Company's consolidated financial condition, consolidated results of operations and consolidated cash flows. In addition, the Company mitigates the potential impact on net income of periodic and lifetime coupon adjustment restrictions in its investment portfolio by entering into interest rate hedging agreements such as interest rate caps and interest rate swaps.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on mortgage-backed securities in the Company's investment portfolio. The Company seeks to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. At September 30, 2006, the aggregate discount exceeded the aggregate premium on the Company's mortgage-backed securities by approximately \$3.3 million. At December 31, 2005, the aggregate discount exceeded the aggregate premium on the Company's mortgage-backed securities by approximately \$2.8 million.

**Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes An Interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently determining the effect, if any, the adoption of FIN 48 will have on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ( FAS 157 ) Fair Value Measurements . FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value in GAAP and expands the disclosure of fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently determining the effect, if any, the adoption of FAS 157 will have on its financial statements.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ( SAB 108 ). SAB 108 provides guidance for how errors should be evaluated to assess materiality from a quantitative perspective. SAB 108 permits companies to initially apply its provisions by either restating prior financial statements or recording the cumulative effect of initially applying the approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment to retained earnings. SAB 108 is required to be adopted for the fiscal years ending after November 30, 2006 and is not expected to have a material effect on the Company's financial statements.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)****NOTE 3 RESTRICTED CASH**

Restricted cash consists of \$24.8 million of principal and interest payments collected on investments held in four CDO trusts, a \$1.5 million credit facility reserve used to fund future investments that will be acquired by the Company's two bank loan CDO trusts and a \$1.2 million expense reserve used to cover CDOs' operating expenses. The remaining \$1.6 million consists of an interest reserve and security deposits held in connection with the Company's equipment lease and loan portfolio.

**NOTE 4 SECURITIES AVAILABLE-FOR-SALE**

On September 27, 2006, the Company entered into an agreement to sell its remaining agency residential mortgage-backed securities (agency ABS-RMBS) for gross proceeds totaling \$753.2 million, realizing a loss of \$10.9 million. The proceeds from this sale were used to repay related debt of \$716.5 million on October 2, 2006. The balance of the proceeds will be subsequently received in October and November 2006. Principal repayment receivables of \$14.5 million relating to the agency ABS-RMBS portfolio sold have been reflected in principal paydown receivables in the Company's consolidated balance sheets.

The following tables summarize the Company's mortgage-backed securities, other asset-backed securities and private equity investments, including those pledged as collateral and classified as available-for-sale, which are carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>September 30, 2006 (Unaudited):</b>				
ABS-RMBS	\$ 346,988	\$ 1,813	\$ (1,733)	\$ 347,068
Commercial mortgage-backed	27,954	4	(570)	27,388
Other asset-backed	21,452	113	(137)	21,428
<b>Total</b>	<b>\$ 396,394</b>	<b>\$ 1,930</b>	<b>\$ (2,440)</b>	<b>\$ 395,884<sup>(1)</sup></b>
<b>December 31, 2005:</b>				
Agency ABS-RMBS	\$ 1,014,575	\$ 13	\$ (12,918)	\$ 1,001,670
ABS-RMBS	346,460	370	(9,085)	337,745
Commercial mortgage-backed	27,970	1	(608)	27,363
Other asset-backed	22,045	24	(124)	21,945
Private equity	1,984		(30)	1,954
<b>Total</b>	<b>\$ 1,413,034</b>	<b>\$ 408</b>	<b>\$ (22,765)</b>	<b>\$ 1,390,677<sup>(1)</sup></b>

(1) As of September 30, 2006, all securities were pledged as collateral. As of December 31, 2005, all securities, other than \$26.3 million in agency ABS-RMBS and \$2.0 million in private equity investments, were pledged as collateral.



**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)**

The following tables summarize the estimated maturities of the Company's mortgage-backed securities, other asset-backed securities and private equity investments according to their estimated weighted average life classifications (in thousands, except percentages):

Weighted Average Life	Estimated		Weighted average Coupon
	Fair Value	Amortized Cost	
<b>September 30, 2006 (Unaudited):</b>			
Less than one year	\$ 3,971	\$ 3,967	6.66%
Greater than one year and less than five years	344,999	345,110	6.88%
Greater than five years	46,914	47,317	6.19%
<b>Total</b>	<b>\$ 395,884</b>	<b>\$ 396,394</b>	<b>6.79%</b>
<b>December 31, 2005:</b>			
Less than one year	\$	\$	%
Greater than one year and less than five years	1,355,910	1,377,537	4.91%
Greater than five years	34,767	35,497	5.60%
<b>Total</b>	<b>\$ 1,390,677</b>	<b>\$ 1,413,034</b>	<b>4.92%</b>

The following tables show the estimated fair value and gross unrealized losses, aggregated by investment category and length of time, of only those individual securities that have been in a continuous unrealized loss position (in thousands):

	Less than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
<b>September 30, 2006 (Unaudited):</b>				
ABS-RMBS	\$ 74,533	\$ (798)	\$ 153,692	\$ (1,733)
Commercial mortgage-backed	19,093	(568)	26,968	(570)
Other asset-backed	2,999	(137)	2,999	(137)
<b>Total temporarily impaired securities</b>	<b>\$ 96,625</b>	<b>\$ (1,503)</b>	<b>\$ 183,659</b>	<b>\$ (2,440)</b>
<b>December 31, 2005:</b>				
Agency ABS-RMBS	\$ 978,570	\$ (12,918)	\$ 978,570	\$ (12,918)
ABS-RMBS	294,359	(9,085)	294,359	(9,085)
Commercial mortgage-backed	26,905	(608)	26,905	(608)
Other asset-backed	12,944	(124)	12,944	(124)
Private equity	1,954	(30)	1,954	(30)

## Edgar Filing: Resource Capital Corp. - Form S-11/A

Total temporarily impaired securities	\$ 1,314,732	\$ (22,765)	\$ 1,314,732	\$ (22,765)
---------------------------------------	--------------	-------------	--------------	-------------

The temporary impairment of the available-for-sale securities results from the estimated fair value of the securities falling below their amortized cost basis and is solely attributed to changes in interest rates. As of September 30, 2006 and December 31, 2005, respectively, none of the securities held by the Company had been downgraded by a credit rating agency since their purchase. The Company intends and has the ability to hold the securities until the estimated fair value of the securities held is recovered, which may be maturity if necessary. As such, the Company does not believe any of the securities held are other-than-temporarily impaired at September 30, 2006 and December 31, 2005, respectively.

F-11

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)****NOTE 5 LOANS**

The following is a summary of the Company's loans (in thousands):

<b>Loan Description</b>	<b>Principal</b>	<b>Unamortized (Discount) Premium</b>	<b>Net Amortized Cost</b>
<b>September 30, 2006 (Unaudited):</b>			
Bank loans	\$ 613,979	\$ 968	\$ 614,947
Commercial real estate loans:			
Whole loans	76,440	(619)	75,821
A notes	42,500	17	42,517
B notes	162,280	(109)	162,171
Mezzanine loans	164,750	(5,604)	159,146
Total	\$ 1,059,949	\$ (5,347)	\$ 1,054,602
<b>December 31, 2005:</b>			
Bank loans	\$ 397,869	\$ 916	\$ 398,785
Commercial real estate loans:			
B notes	121,671		121,671
Mezzanine loans	49,417		49,417
Total	\$ 568,957	\$ 916	\$ 569,873

At September 30, 2006, the Company's bank loan portfolio consisted of \$614.7 million of floating rate loans, which bear interest between London Interbank Offered Rate ( LIBOR ) plus 1.38% and LIBOR plus 7.50% with maturity dates ranging from March 2007 to August 2022, and a \$249,000 fixed rate loan, which bears interest at 6.25% with a maturity date of September 2015.

At December 31, 2005, the Company's bank loan portfolio consisted of \$398.5 million of floating rate loans, which bear interest between LIBOR plus 1.00% and LIBOR plus 7.00% with maturity dates ranging from April 2006 to October 2020, and a \$249,000 fixed rate loan, which bears interest at 6.25% with a maturity date of September 2015.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)**

The following is a summary of the loans in the Company's commercial real estate loan portfolio at the dates indicated (in thousands):

Description	Quantity	Amortized Cost	Interest Rates	Maturity Dates
<b>September 30, 2006 (Unaudited):</b>				
Whole loans, floating rate	4	\$ 75,821	LIBOR plus 2.50% to LIBOR plus 3.60%	August 2007 to September 2008
A notes, floating rate	2	42,517	LIBOR plus 1.25% to LIBOR plus 1.35%	January 2008 to April 2008
B notes, floating rate	8	120,251	LIBOR plus 1.90% to LIBOR plus 6.25%	January 2007 to April 2008
B notes, fixed rate	2	41,920	7.18% to 8.68%	April 2016 to July 2016
Mezzanine loans, floating rate	6	75,476	LIBOR plus 2.25% to LIBOR plus 4.50%	August 2007 to July 2008
Mezzanine loan, floating rate	1	6,523	10 year Treasury rate plus 6.64%	January 2016
Mezzanine loans, fixed rate	7	77,147	5.78% to 9.50%	October 2009 to September 2016
<b>Total</b>	<b>30</b>	<b>\$ 439,655</b>		
<b>December 31, 2005:</b>				
B notes, floating rate	7	\$ 121,671	LIBOR plus 2.15% to LIBOR plus 6.25%	January 2007 to April 2008
Mezzanine loans, floating rate	4	44,405	LIBOR plus 2.25% to LIBOR plus 4.50%	August 2007 to July 2008
Mezzanine loan, fixed rate	1	5,012	9.50%	May 2010
<b>Total</b>	<b>12</b>	<b>\$ 171,088</b>		

## Edgar Filing: Resource Capital Corp. - Form S-11/A

As of September 30, 2006 and December 31, 2005, the Company had not recorded an allowance for loan losses. At September 30, 2006 and December 31, 2005, all of the Company's loans were current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and secondary market prices, the Company did not identify any loans with characteristics indicating that impairment had occurred.

F-13

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)****NOTE 6 DIRECT FINANCING LEASES AND NOTES**

The Company's direct financing leases have initial lease terms of 73 months and 54 months, as of September 30, 2006 and December 31, 2005, respectively. The interest rates on notes receivable range from 6% to 13% and from 8% to 9%, as of September 30, 2006 and December 31, 2005, respectively. Investments in direct financing leases and notes, net of unearned income, were as follows (in thousands):

	September 30, 2006 (Unaudited)	December 31, 2005
Direct financing leases, net of unearned income	\$ 33,197	\$ 18,141
Notes receivable	58,712	5,176
<b>Total</b>	<b>\$ 91,909</b>	<b>\$ 23,317</b>

The components of the net investment in direct financing leases are as follows (in thousands):

	September 30, 2006 (Unaudited)	December 31, 2005
Total future minimum lease payments	\$ 39,583	\$ 21,370
Unearned income	(6,386)	(3,229)
<b>Total</b>	<b>\$ 33,197</b>	<b>\$ 18,141</b>

The future minimum lease payments expected to be received on non-cancelable direct financing leases and notes were as follows (in thousands):

Years Ending	Direct		
	Financing Leases	Notes	Total
September 30, (Unaudited)			
2007	\$ 11,695	\$ 10,299	\$ 21,994
2008	10,794	10,599	21,393
2009	6,719	9,782	16,501
2010	5,714	8,035	13,749
2011	2,898	6,073	8,971
Thereafter	1,763	13,924	15,687

\$	39,583	\$ 58,712	\$ 98,295
----	--------	-----------	-----------

**NOTE 7 BORROWINGS**

The Company finances the acquisition of its investments, including securities available-for-sale, loans and equipment leases and notes, primarily through the use of secured and unsecured borrowings in the form of CDOs, repurchase agreements, a secured term facility, warehouse facilities, trust preferred securities issuances and other secured and unsecured borrowings.

F-14

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)**

Certain information with respect to the Company's borrowings at September 30, 2006 and December 31, 2005 is summarized in the following table (dollars in thousands):

	<b>Outstanding Borrowings</b>	<b>Weighted Average Borrowing Rate</b>	<b>Weighted Average Remaining Maturity</b>	<b>Value of Collateral</b>
<b>September 30, 2006 (Unaudited):</b>				
Repurchase Agreements	\$ 770,167	5.45%	3 days	\$ 818,084
RREF CDO 2006-1 Senior Notes <sup>(1)</sup>	259,850	6.15%	39.9 years	339,825
Ischus CDO II Senior Notes <sup>(2)</sup>	371,014	5.62%	33.9 years	395,884
Apidos CDO I Senior Notes <sup>(3)</sup>	317,226	5.94%	10.8 years	338,184
Apidos CDO III Senior Notes <sup>(4)</sup>	258,661	5.76%	13.7 years	275,701
Secured Term Facility	87,080	6.34%	3.5 years	91,909
Unsecured Revolving Credit Facility		N/A	2.3 years	
Unsecured Junior Subordinated Debentures <sup>(5)</sup>	51,548	9.39%	29.9 years	
<b>Total</b>	<b>\$ 2,115,546</b>	<b>5.81%</b>		<b>\$ 2,259,587</b>
<b>December 31, 2005:</b>				
Repurchase Agreements	\$ 1,068,277	4.48%	17 days	\$ 1,146,711
Ischus CDO II Senior Notes <sup>(2)</sup>	370,569	4.80%	34.6 years	387,053
Apidos CDO I Senior Notes <sup>(3)</sup>	316,838	4.42%	11.6 years	335,831
Apidos CDO III Warehouse Facility <sup>(4)</sup>	62,961	4.29%	90 days	62,954
Unsecured Revolving Credit Facility	15,000	6.37%	3.0 years	45,107
<b>Total</b>	<b>\$ 1,833,645</b>	<b>4.54%</b>		<b>\$ 1,977,656</b>

- (1) Amount represents principal outstanding of \$265.5 million less unamortized issuance costs of \$5.6 million as of September 30, 2006. This CDO transaction closed in August 2006.
- (2) Amount represents principal outstanding of \$376.0 million less unamortized issuance costs of \$5.0 million and \$5.4 million as of September 30, 2006 and December 31, 2005, respectively.
- (3) Amount represents principal outstanding of \$321.5 million less unamortized issuance costs of \$4.3 million and \$4.7 million as of September 30, 2006 and December 31, 2005, respectively.
- (4) Amount represents principal outstanding of \$262.5 million less unamortized issuance costs of \$3.8 million as of September 30, 2006. This CDO transaction closed in May 2006.
- (5) Amount represents junior subordinated debentures issued to Resource Capital Trust I and RCC Trust II in connection with each respective trust's issuance of trust preferred securities in May 2006 and September 2006, respectively.



**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)**

The Company had repurchase agreements with the following counterparties at the dates indicated (dollars in thousands):

	Amount at Risk <sup>(1)</sup>	Weighted Average Maturity in Days	Weighted Average Interest Rate
<b>September 30, 2006 (Unaudited):</b>			
Credit Suisse Securities (USA) LLC <sup>(2)</sup>	\$ 25,400	2	5.38%
UBS Securities LLC <sup>(2)</sup>	\$ 4,962	2	5.31%
Bear, Stearns International Limited	\$ 5,898	16	6.83%
Column Financial Inc, a subsidiary of Credit Suisse Securities (USA) LLC.	\$ 12,262	18	6.50%
<b>December 31, 2005:</b>			
Credit Suisse Securities (USA) LLC	\$ 31,158	17	4.34%
Bear, Stearns International Limited	\$ 36,044	17	5.51%
Deutsche Bank AG, Cayman Islands Branch	\$ 16,691	18	5.68%

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

(2) Facility was repaid in full as part of the sale of the Company's agency ABS-RMBS portfolio on October 2, 2006.

**Repurchase and Credit Facilities**

In August 2006, the Company's subsidiary, RCC Real Estate SPE 2, LLC, entered into a master repurchase agreement with Column Financial, Inc., a wholly-owned subsidiary of Credit Suisse Securities (USA) LLC, (CS) to finance the purchase of commercial real estate loans. The maximum amount of the Company's borrowing under the repurchase agreement is \$300.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. The Company has guaranteed RCC Real Estate SPE 2, LLC's obligations under the repurchase agreement to a maximum of \$300.0 million. At September 30, 2006, the Company had borrowed \$43.0 million, all of which was guaranteed, with a weighted average interest rate of LIBOR plus 1.17%, which was 6.50% at September 30, 2006.

In March 2006, the Company entered into a secured term credit facility with Bayerische Hypo und Vereinsbank AG to finance the purchase of equipment leases and notes. The maximum amount of the Company's borrowing under this facility is \$100.0 million.

Borrowings under this facility bear interest at one of two rates, determined by asset class:

Pool A one-month LIBOR plus 1.10%; or

Pool B one-month LIBOR plus 0.80%.

The facility expires March 2010. The Company paid \$300,000 and \$20,000 in commitment fees and unused fees as of September 30, 2006. Commitment fees are being amortized into interest expense using the effective yield method over the life of the facility and are recorded in the

## Edgar Filing: Resource Capital Corp. - Form S-11/A

consolidated statements of operations. Unused fees are expensed immediately into interest expense and are recorded in the consolidated statements of operations. As of September 30, 2006, the Company had borrowed \$87.1 million at a weighted average interest rate of 6.34%.

F-16

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

In December 2005, the Company's subsidiary, RCC Real Estate SPE, LLC, entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch to finance the purchase of commercial real estate loans. The maximum amount of the Company's borrowing under the repurchase agreement is \$300.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. The Company had guaranteed RCC Real Estate SPE's obligations under the repurchase agreement to a maximum of \$30.0 million, which may be reduced based upon the amount of equity the Company has in the commercial real estate loans held on this facility. At September 30, 2006, no borrowings were outstanding under this facility. At December 31, 2005, the Company had borrowed \$38.6 million with a weighted average interest rate of LIBOR plus 1.32%, which was 5.68% at December 31, 2005. The Company had no risk under this guaranty at September 30, 2006 and the Company's maximum risk under this guaranty was \$30.0 million at December 31, 2005.

In December 2005, the Company entered into a \$15.0 million unsecured revolving credit facility with Commerce Bank, N.A. This facility was increased to \$25.0 million in April 2006. Outstanding borrowings bear interest at one of two rates elected at the Company's option; (i) the lender's prime rate plus a margin ranging from 0.50% to 1.50% based upon the Company's leverage ratio; or (ii) LIBOR plus a margin ranging from 1.50% to 2.50% based upon the Company's leverage ratio. The facility expires in December 2008. The Company paid \$250,000 and \$11,000 in commitment fees and unused line fees as of September 30, 2006. Commitment fees are being amortized into interest expense using the effective yield method over the life of the facility and are recorded in the consolidated statements of operations. Unused line fees are expensed immediately into interest expense and are recorded in the consolidated statements of operations. As of September 30, 2006, no borrowings were outstanding under this facility. At December 31, 2005, the balance outstanding was \$15.0 million at an interest rate of 6.37%.

In August 2005, the Company's subsidiary, RCC Real Estate, Inc. (RCC Real Estate), entered into a master repurchase agreement with Bear Stearns International Limited (Bear Stearns) to finance the purchase of commercial real estate loans. The maximum amount of the Company's borrowing under the repurchase agreement is \$150.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. The Company has guaranteed RCC Real Estate's obligations under the repurchase agreement to a maximum of \$150.0 million. At September 30, 2006, the Company had borrowed \$10.9 million, all of which was guaranteed, with a weighted average interest rate of LIBOR plus 1.50%, which was 6.83% at September 30, 2006. At December 31, 2005, the Company had borrowed \$80.8 million with a weighted average interest rate of LIBOR plus 1.14%, which was 5.51% at December 31, 2005.

RCC Real Estate has received a waiver from Bear Stearns with respect to compliance with a financial covenant in the master repurchase agreement between it and Bear Stearns. The waiver was required due to the Company's net loss during the three months ended September 30, 2006, which was caused by the loss realized by the Company on the sale of the remainder of its portfolio of agency ABS-RMBS (see Note 4). Under the covenant, the Company is required to have no less than \$1.00 of net income in any period of four consecutive calendar months. The waiver is effective through January 31, 2007.

At September 30, 2006, the Company has complied, to the best of its knowledge, with all of its other financial covenants under its debt agreements.

In March 2005, the Company entered into a master repurchase agreement with CS to finance the purchase of agency ABS-RMBS portfolio. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At September 30, 2006, the Company had borrowed \$577.2 million with a weighted average interest rate of 5.38%. On October 2, 2006, all

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

outstanding borrowings under this facility were repaid in full in connection with the sale of the Company's agency ABS-RMBS portfolio. At December 31, 2005, the Company had borrowed \$948.9 million with a weighted average interest rate of 4.34%.

In March 2005, the Company entered into a master repurchase agreement with UBS Securities LLC to finance the purchase of agency ABS-RMBS portfolio. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At September 30, 2006, the Company had borrowed \$139.1 million with a weighted average interest rate of 5.31%. On October 2, 2006, all outstanding borrowings under this facility were repaid in full in connection with the sale of the Company's remaining agency ABS-RMBS portfolio. At December 31, 2005, the Company had no borrowings under this agreement.

**Collateralized Debt Obligations**

In August 2006, the Company closed Resource Real Estate Funding CDO 2006-1, a \$345.0 million CDO transaction that provides financing for commercial real estate loans. The investments held by Resource Real Estate Funding CDO 2006-1 collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Resource Real Estate Funding CDO 2006-1 issued a total of \$308.7 million of senior notes at par to investors of which RCC Real Estate purchased 100% of the class J senior notes (rated BB:Moody's) and class K senior notes (rated B:Moody's) for \$43.1 million. In addition, Resource Real Estate Funding 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate Inc., purchased a \$36.3 million equity interest representing 100% of the outstanding preference shares. The senior notes purchased by RCC Real Estate are subordinated in right of payment to all other senior notes issued by Resource Real Estate Funding CDO 2006-1 but are senior in right of payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by Resource Real Estate Funding CDO 2006-1.

The senior notes issued to investors by Resource Real Estate Funding CDO 2006-1 consist of the following classes: (i) \$129.4 million of class A-1 notes bearing interest at 1-month LIBOR plus 0.32%; (ii) \$17.4 million of class A-2 notes bearing interest at 1-month LIBOR plus 0.35%; (iii) \$5.0 million of class A-2 notes bearing interest at a fixed rate of 5.842%; (iv) \$6.9 million of class B notes bearing interest at 1-month LIBOR plus 0.40%; (v) \$20.7 million of class C notes bearing interest at 1-month LIBOR plus 0.62%; (vi) \$15.5 million of class D notes bearing interest at 1-month LIBOR plus 0.80%; (vii) \$20.7 million of class E notes bearing interest at 1-month LIBOR plus 1.30%; (viii) \$19.8 million of class F notes bearing interest at 1-month LIBOR plus 1.60%; (ix) \$17.3 million of class G notes bearing interest at 1-month LIBOR plus 1.90%; (x) \$12.9 million of class H notes bearing interest at 1-month LIBOR plus 3.75%, (xi) \$14.7 million of Class J notes bearing interest at a fixed rate of 6.00% and (xii) \$28.4 million of Class K notes bearing interest at a fixed rate of 6.00%. As a result of the Company's ownership of the Class J and K senior notes, these notes eliminate in consolidation. All of the notes issued mature in August 2046, although the Company has the right to call the notes anytime after August 2016 until maturity. The weighted average interest rate on all notes issued to investors was 6.15% at September 30, 2006.

In May 2006, the Company closed Apidos CDO III, a \$285.5 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO III collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO III issued a total of \$262.5 million of senior notes at par to investors and RCC Commercial purchased a \$23.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos CDO III.

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

The senior notes issued to investors by Apidos CDO III consist of the following classes: (i) \$212.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) \$19.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.45%; (iii) \$15.0 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) \$10.5 million of class C notes bearing interest at 3-month LIBOR plus 1.75%; and (v) \$6.0 million of class D notes bearing interest at 3-month LIBOR plus 4.25%. All of the notes issued mature on June 12, 2020, although the Company has the right to call the notes anytime after June 12, 2011 until maturity. The weighted average interest rate on all notes was 5.76% at September 30, 2006.

In August 2005, the Company closed Apidos CDO I, a \$350.0 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO I collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO I issued a total of \$321.5 million of senior notes at par to investors and RCC Commercial purchased a \$28.5 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos CDO I.

The senior notes issued to investors by Apidos CDO I consist of the following classes: (i) \$265.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) \$15.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.42%; (iii) \$20.5 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) \$13.0 million of class C notes bearing interest at 3-month LIBOR plus 1.85%; and (v) \$8.0 million of class D notes bearing interest at a fixed rate of 9.251%. All of the notes issued mature on July 27, 2010, although the Company has the right to call the notes anytime after July 27, 2010 until maturity. The weighted average interest rate on all notes was 5.94% at September 30, 2006.

In July 2005, the Company closed Ischus CDO II, a \$403.0 million CDO transaction that provides financing for mortgage-backed and other asset-backed securities. The investments held by Ischus CDO II collateralize the debt it issued and, as a result, those investments are not available to the Company, its creditors or stockholders. Ischus CDO II issued a total of \$376.0 million of senior notes at par to investors and RCC Real Estate purchased a \$27.0 million equity interest representing 100% of the outstanding preference shares. In August 2006, upon approval by the Company's Board of Directors, the preference shares of Ischus CDO II were transferred to the Company's wholly-owned subsidiary, RCC Commercial, Inc. (RCC Commercial). As of September 30, 2006, RCC Commercial owned a \$27.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinate in right of payment to all other securities issued by Ischus CDO II.

The senior notes issued to investors by Ischus CDO II consist of the following classes: (i) \$214.0 million of class A-1A notes bearing interest at 1-month LIBOR plus 0.27%; (ii) \$50.0 million of class A-1B delayed draw notes bearing interest on the drawn amount at 1-month LIBOR plus 0.27%; (iii) \$28.0 million of class A-2 notes bearing interest at 1-month LIBOR plus 0.45%; (iv) \$55.0 million of class B notes bearing interest at 1-month LIBOR plus 0.58%; (v) \$11.0 million of class C notes bearing interest at 1-month LIBOR plus 1.30%; and (vi) \$18.0 million of class D notes bearing interest at 1-month LIBOR plus 2.85%. All of the notes issued mature on August 6, 2040, although the Company has the right to call the notes at par any time after August 6, 2009 until maturity. The weighted average interest rate on all notes was 5.62% at September 30, 2006.

**Trust Preferred Securities**

In May 2006 and September 2006, the Company formed Resource Capital Trust I (RCTI) and RCC Trust II (RCTII), respectively, for the sole purpose of issuing and selling trust preferred securities. In accordance with FASB Interpretation No. 46R (FIN 46R), RCTI and RCTII are not consolidated into the Company's

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)**

consolidated financial statements because the Company is not deemed to be the primary beneficiaries of these entities. The Company owns 100% of the common shares in RCTI and RCTII. Each respective trust issued \$25.0 million of preferred shares to unaffiliated investors.

In connection with the issuance and sale of the trust preferred securities, the Company issued junior subordinated debentures to RCTI and RCTII of \$25.8 million each, representing the Company's maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCTI and RCTII at September 30, 2006 were \$829,000 and \$828,000, respectively. These costs are being amortized into interest expense using the effective yield method over a ten year period and are recorded in the consolidated statements of operations.

The rights of holders of common shares of RCTI and RCTII are subordinate to the rights of the holders of preferred shares only in the event of a default; otherwise, the common shareholders' economic and voting rights are pari passu with the preferred shareholders. The preferred and common securities of RCTI and RCTII are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures. Unless earlier dissolved, RCTI will dissolve on May 25, 2041 and RCTII will dissolve on September 29, 2041. The junior subordinated debentures are the sole asset of RCTI and RCTII and mature on June 30, 2036 and October 30, 2036, respectively, and may be called at par by the Company any time after June 30, 2011 and October 30, 2011, respectively. Interest is payable for RCTI and RCTII quarterly at a floating rate equal to three-month LIBOR plus 3.95% per annum. The rates for RCTI and RCTII, at September 30, 2006, were 9.45% and 9.32%, respectively. The Company records its investments in RCTI and RCTII's common shares of \$774,000 each as investments in unconsolidated trusts and records dividend income upon declaration by RCTI and RCTII.

**NOTE 8 CAPITAL STOCK AND EARNINGS PER SHARE**

The Company had authorized 500,000,000 shares of common stock, par value \$0.001 per share, of which 17,821,434 and 15,682,334 shares (including 234,224 and 349,000 restricted shares) were outstanding as of September 30, 2006 and December 31, 2005, respectively.

On March 8, 2005, the Company granted 345,000 shares of restricted common stock and options to purchase 651,666 common shares at an exercise price of \$15.00 per share, to the Manager. One third of the shares of restricted stock and options vested on March 8, 2006. The Company also granted 4,000 shares of restricted common stock to the Company's four non-employee directors as part of their annual compensation. These shares vested in full on March 8, 2006. On March 8, 2006, the Company granted 4,224 shares of restricted stock to the Company's four non-employee directors as part of their annual compensation. These shares vest in full on March 8, 2007.

The following table summarizes restricted common stock transactions:

	Manager	Non-Employee Directors	Total
<b>Unvested shares as of December 31, 2005</b>	345,000	4,000	349,000
Issued		4,224	4,224
Vested	(115,000)	(4,000)	(119,000)
Forfeited			
<b>Unvested shares as of September 30, 2006 (Unaudited)</b>	230,000	4,224	234,224

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2006****(Unaudited)**

Pursuant to SFAS No. 123(R), the Company is required to value any unvested shares of restricted common stock granted to the Manager at the current market price. The estimated fair value of the shares of restricted stock granted, including shares issued to the four non-employee directors, was \$5.3 million and \$5.2 million at September 30, 2006 and December 31, 2005, respectively.

The following table summarizes common stock option transactions:

	Number of Options	Weighted Average Exercise Price
<b>Outstanding as of December 31, 2005</b>	651,666	\$ 15.00
Granted		\$
Exercised		\$
Forfeited		\$
<b>Outstanding as of September 30, 2006 (Unaudited)</b>	651,666	\$ 15.00

None of the common stock options outstanding were exercised at September 30, 2006 and December 31, 2005, respectively. As of September 30, 2006, 722 common stock options were exercisable, and no common stock options were exercisable as of December 31, 2005. The common stock options are valued using the Black-Scholes model using the following assumptions:

	September 30, 2006 (Unaudited)	December 31, 2005
Expected life	9 years	10 years
Discount rate	4.694%	4.603%
Volatility	21.27%	20.11%
Dividend yield	10.40%	12.00%

The estimated fair value of the total common stock options was \$386,200 and \$158,300 at September 30, 2006 and December 31, 2005, respectively. The estimated fair value of each option grant at September 30, 2006 and December 31, 2005, respectively, was \$0.655 and \$0.243. For the three months ended September 30, 2006 and 2005, nine months ended September 30, 2006 and the period from March 8, 2005 (date operations commenced) through September 30, 2005 (hereafter referred to as period ended September 30, 2005), the components of equity compensation expense are as follows (in thousands):

Three Months Ended September 30,		Nine Months Ended	Period Ended
		September 30,	September 30,
2006	2005	2006	2005
(Unaudited)		(Unaudited)	(Unaudited)

## Edgar Filing: Resource Capital Corp. - Form S-11/A

Options granted to Manager	\$ 86	\$ 24	\$ 208	\$ 55
Restricted shares granted to Manager	697	797	1,367	1,784
Restricted shares granted to non-employee directors	15	15	45	34
Total equity compensation expense	\$ 798	\$ 836	\$ 1,620	\$ 1,873

During the three and nine months ended September 30, 2006, the Manager received 6,252 and 14,076 shares, respectively, as incentive compensation, valued at \$79,000 and \$194,000, respectively, pursuant to the management agreement. No incentive fee compensation shares were issued as of December 31, 2005.

F-21



Table of Contents

## RESOURCE CAPITAL CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2006

(Unaudited)

In connection with the July 2006 hiring of a commercial mortgage direct loan origination team by Resource Real Estate, Inc. (see Related Party Transactions Note 9), the Company agreed to issue up to 100,000 shares of common stock and options to purchase an additional 100,000 shares of common stock, if certain loan origination performance thresholds are achieved. The performance thresholds are two-tiered. Upon the achievement of \$400.0 million of direct loan originations of commercial real estate loans, 60,000 restricted shares of common stock and options to purchase an additional 60,000 shares of common stock are issuable. Upon the achievement of another \$300.0 million of direct loan originations of commercial real estate loans, a second tranche of 40,000 restricted shares of common stock and options to purchase another 40,000 shares of common stock are issuable. The restricted shares and options to purchase shares of common stock vest over a two-year period after issuance. The Company accounts for equity instruments issued to non-employees for goods or services in accordance with the provisions of SFAS No. 123(R) and Emerging Task Force Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ( EITF 96-18 ). Accordingly, when the non-employees complete their performance or when a performance commitment is reached, the Company is required to measure the fair value of the equity instruments. No expense was recognized for the three months ended September 30, 2006, as neither a performance commitment nor completion of performance was achieved.

The following table presents a reconciliation of basic and diluted earnings per share for the periods presented as follows (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended	Period Ended
	2006	2005	September 30, 2006	September 30, 2005
	(Unaudited)		(Unaudited)	(Unaudited)
<b>Basic:</b>				
Net (loss) income	\$ (2,401)	\$ 3,776	\$ 8,814	\$ 6,008
Weighted average number of shares outstanding	17,585,171	15,333,334	17,261,091	15,333,334
Basic net (loss) income per share	\$ (0.14)	\$ 0.25	\$ 0.51	\$ 0.39
<b>Diluted:</b>				
Net (loss) income	\$ (2,401)	\$ 3,776	\$ 8,814	\$ 6,008
Weighted average number of shares outstanding	17,585,171	15,333,334	17,261,091	15,333,334
Additional shares due to assumed conversion of dilutive instruments		124,799	127,475	124,799
Adjusted weighed-average number of common shares outstanding <sup>(1)</sup>	17,585,171	15,458,133	17,388,566	15,458,133
Diluted net (loss) income per share	\$ (0.14)	\$ 0.24	\$ 0.51	\$ 0.39

(1)

## Edgar Filing: Resource Capital Corp. - Form S-11/A

For the three months ended September 30, 2006, the weighted average number of shares used in calculating the diluted net loss per share is the same as the basic weighted average number of shares as a result of a net loss available to common shareholders for the period.

F-22

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

Potentially dilutive shares relating to stock options to purchase 651,666 shares of common stock and warrants to purchase 1,568,244 shares of common stock for the three and nine months ended September 30, 2006 and 349,000 restricted shares and options to purchase 651,666 shares of common stock for the three months ended September 2005 and the period ended September 30, 2005 are not included in the calculation of diluted net income per share because the effect is anti-dilutive.

**NOTE 9 RELATED-PARTY TRANSACTIONS**

**Management Agreement**

The base management fee for the three and nine months ended September 30, 2006 was \$916,000 and \$2.7 million, respectively. The incentive management fee for the nine months ended September 30, 2006 was \$432,000. No incentive management fee was earned by the Manager for the three months ended September 30, 2006. The base management fee for the three months ended September 30, 2005 and period from March 8, 2005 to September 30, 2005 was \$822,000 and \$1.8 million, respectively. No incentive management fee was earned by the Manager for the three months and the period ended September 30, 2005.

At September 30, 2006, the Company was indebted to the Manager for base management fees of \$614,000 and for reimbursement of expenses of \$263,000. At December 31, 2005, the Company was indebted to the Manager for base and incentive management fees of \$552,000 and \$344,000, respectively, and for reimbursement of expenses of \$143,000. These amounts are included in management and incentive fee payable and accounts payable and accrued liabilities, respectively.

**Relationship with Resource Real Estate**

Resource Real Estate, Inc., a subsidiary of RAI, originates, finances and manages the Company's commercial real estate loan portfolio, including whole loans, A notes, B notes and mezzanine loans. The Company reimburses Resource Real Estate for loan origination costs associated with all loans originated. At September 30, 2006 and December 31, 2005, the Company was indebted to Resource Real Estate for loan origination costs in connection with the Company's commercial real estate loan portfolio of \$332,000 and \$22,000, respectively.

**Relationship with LEAF Financial Corporation ( LEAF )**

LEAF, a subsidiary of RAI, originates and manages equipment leases and notes on the Company's behalf. The Company purchases these leases and notes from LEAF at a price equal to their book value plus a reimbursable origination cost not to exceed 1% to compensate LEAF for its origination costs. In addition, the Company pays LEAF an annual servicing fee, equal to 1% of the book value of managed assets, for servicing the Company's equipment leases and notes. At September 30, 2006 and December 31, 2005, the Company was indebted to LEAF for servicing fees in connection with the Company's equipment finance portfolio of \$143,000 and \$41,000, respectively. The LEAF servicing fees for the three and nine months ended September 30, 2006 were \$210,000 and \$430,000, respectively. No LEAF servicing fees were incurred for the three months and period ended September 30, 2005.

During the three months ended September 30, 2006, the Company sold two notes back to LEAF at a price equal to their book value. The total proceeds received on outstanding notes receivable were \$16.3 million.

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

**Relationship with RAI**

At September 30, 2006, RAI, had a 10.7% ownership interest in the Company, consisting of 1,900,000 shares it had purchased, 14,076 shares it received as incentive compensation pursuant to the management agreement and 307 vested shares associated with the issuance of restricted stock. In addition, certain officers of the Manager and its affiliates had a 2.3% ownership interest in the Company, consisting of 334,667 shares they had purchased and 83,995 vested shares associated with the issuance of restricted stock as of September 30, 2006. All purchased shares were acquired in offerings by the Company at the same price at which shares were purchased by the other investors in those offerings.

**Relationship with Law Firm**

Until 1996, the Company's Chairman, Edward Cohen, was of counsel to Ledgewood, P.C., a law firm. The Company paid Ledgewood \$25,000 and \$314,000 for the three and nine months ended September 30, 2006, respectively, and \$203,000 and \$613,000 for the three months and period ended September 30, 2005. Mr. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood and its redemption of his interest.

**NOTE 10 DISTRIBUTIONS**

On September 19, 2006, the Company declared a quarterly distribution of \$0.37 per share of common stock, \$6.6 million in the aggregate, which was paid on October 13, 2006 to stockholders of record as of September 29, 2006.

On June 20, 2006, the Company declared a quarterly distribution of \$0.36 per share of common stock, \$6.4 million in the aggregate, which was paid on July 21, 2006 to stockholders of record as of June 29, 2006.

On March 16, 2006, the Company declared a quarterly distribution of \$0.33 per share of common stock, \$5.9 million in the aggregate, which was paid on April 10, 2006 to stockholders of record as of March 27, 2006.

On January 13, 2006, the Company paid a special dividend to stockholders of record on January 4, 2006, including holders of restricted stock, consisting of warrants to purchase the Company's common stock. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$15.00 per share. Stockholders received one warrant for each ten shares of common stock and restricted stock held. If an existing stockholder owned shares in other than a ten-share increment, the stockholder received an additional warrant. The warrants will expire on January 13, 2009 and will not be exercisable until January 13, 2007. An aggregate of 1,568,244 shares are issuable upon exercise of the warrants.

**NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS**

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate value. The estimated fair value of available-for-sale securities, derivatives and direct financing leases and notes is equal to their respective carrying value presented in the consolidated balance sheets. The estimated fair value of loans held for investment was \$1.1 billion and \$571.7 million as of September 30, 2006 and December 31, 2005, respectively. The estimated fair value of all other assets and liabilities approximate carrying value as of September 30, 2006 and December 31, 2005 due to the short-term nature of these items.

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SEPTEMBER 30, 2006**

**(Unaudited)**

**NOTE 12 DERIVATIVE INSTRUMENTS**

At September 30, 2006, the Company had 11 interest rate swap contracts and four forward interest rate swap contracts. The Company will pay an average fixed rate of 5.34% and receive a variable rate equal to one-month and three-month LIBOR on the interest rate swap contracts. The aggregate notional amount of these contracts was \$212.3 million. The Company will pay an average fixed rate of 5.31% and receive a variable rate equal to one-month LIBOR on the forward interest rate swap contracts, which will commence in February 2007. The aggregate notional amount of these contracts was \$61.0 million. In addition, the Company had one interest rate cap agreement outstanding whereby it reduced its exposure to variability in future cash outflows attributable to changes in LIBOR. The aggregate notional amount of this contract was \$15.0 million at September 30, 2006.

At December 31, 2005, the Company had six interest rate swap contracts outstanding whereby the Company will pay an average fixed rate of 3.89% and receive a variable rate equal to one-month and three-month LIBOR. The aggregate notional amount of these contracts was \$972.2 million at December 31, 2005. In addition, the Company had one interest rate cap agreement outstanding whereby it reduced its exposure to variability in future cash outflows attributable to changes in LIBOR. The aggregate notional amount of this contract was \$15.0 million at December 31, 2005.

The estimated fair value of the Company's interest rate swaps, forward swaps and interest rate cap was \$(3.3) million and \$3.0 million as of September 30, 2006 and December 31, 2005, respectively. The Company had aggregate unrealized losses of \$3.4 million and aggregate unrealized gains of \$2.8 million on the interest rate swap agreements and interest rate cap agreement, as of September 30, 2006 and December 31, 2005, respectively, which is recorded in accumulated other comprehensive loss. In connection with the January 2006 sale of a portion of the Company's agency ABS-RMBS portfolio, the Company realized a swap termination gain of \$881,000, which is reflected in interest expense in the Company's consolidated statements of operations. In connection with the sale of the Company's remaining agency ABS-RMBS portfolio on September 27, 2006, the Company realized a swap termination gain of \$2.6 million. This swap agreement had an original termination date of October 2007. The realized gain is reflected in net realized gains on investments in the Company's consolidated statements of operations.

**NOTE 13 SUBSEQUENT EVENT**

On October 2, 2006, in connection with the sale of the Company's agency ABS-RMBS portfolio, all borrowings were repaid under the CS and UBS Securities LLC agency ABS-RMBS repurchase facilities totaling \$716.5 million. In addition, the net proceeds were used to repay outstanding borrowings under the Column Financial Inc. commercial real estate loan repurchase facility in October 2006.

On October 31, 2006, the Company entered into a secured term credit facility with Morgan Stanley Bank to finance the purchase of equipment leases and notes. The maximum amount of the Company's borrowing under this facility is \$100.0 million for the first 12 months and \$250.0 million thereafter. The facility expires October 2009.

Borrowings under this facility bear interest at one of two rates, determined by the outstanding balance of the facility:

Less than \$100.0 million one-month LIBOR plus 0.60%; and

Greater than \$100.0 million one-month LIBOR plus 0.75%



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders of

**Resource Capital Corp.**

We have audited the accompanying consolidated balance sheet of Resource Capital Corp. and subsidiaries (the Company) as of December 31, 2005, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the period from March 8, 2005 (Date Operations Commenced) to December 31, 2005. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resource Capital Corp. and subsidiaries as of December 31, 2005, and the results of their operations, and their cash flows for the period from March 8, 2005 (Date Operations Commenced) to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

New York, New York  
March 15, 2006

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in thousands, except share and per share data)

	<b>December 31, 2005</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 17,729
Restricted cash	23,592
Due from broker	525
Available-for-sale securities, pledged as collateral, at fair value	1,362,392
Available-for-sale securities, at fair value	28,285
Loans, net of allowances of \$0	570,230
Direct financing leases and notes, net	23,317
Derivatives, at fair value	3,006
Interest receivable	9,520
Principal paydowns receivables	5,805
Other assets	1,146
<b>Total assets</b>	<b>\$ 2,045,547</b>
<b>LIABILITIES</b>	
Repurchase agreements, including accrued interest of \$2,104	\$ 1,068,277
Collateralized debt obligations ( CDOs )	687,407
Warehouse agreements	62,961
Unsecured revolving credit facility	15,000
Distribution payable	5,646
Accrued interest expense	9,514
Management fee payable related party	896
Accounts payable and accrued liabilities	513
<b>Total liabilities</b>	<b>1,850,214</b>
<b>STOCKHOLDERS EQUITY</b>	
Preferred stock, par value \$0.001: 100,000,000 shares authorized; no shares issued and outstanding	
Common stock, par value \$0.001: 500,000,000 shares authorized; 15,682,334 shares issued and outstanding (including 349,000 restricted shares)	16
Additional paid-in capital	220,161
Deferred equity compensation	(2,684)
Accumulated other comprehensive loss	(19,581)
Distributions in excess of earnings	(2,579)
<b>Total stockholders equity</b>	<b>\$ 195,333</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,045,547</b>

See accompanying notes to consolidated financial statements.



**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS****(in thousands, except share and per share data)**

	<b>Period from</b>
	<b>March 8, 2005</b>
	<b>(Date Operations</b>
	<b>Commenced)</b>
	<b>to December 31, 2005</b>
<b>REVENUES</b>	
Net interest income:	
Interest income from securities available-for-sale	\$ 44,247
Interest income from loans	14,662
Interest income - other	2,478
Total interest income	61,387
Interest expense	43,062
Net interest income	18,325
<b>OTHER REVENUE</b>	
Net realized gain on investments	311
<b>EXPENSES</b>	
Management fee expense - related party	3,012
Equity compensation expense - related party	2,709
Professional services	516
Insurance expense	395
General and administrative	1,096
Total expenses	7,728
<b>NET INCOME</b>	<b>\$ 10,908</b>
<b>NET INCOME PER SHARE - BASIC</b>	<b>\$ 0.71</b>
<b>NET INCOME PER SHARE - DILUTED</b>	<b>\$ 0.71</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC</b>	<b>15,333,334</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED</b>	<b>15,405,714</b>
<b>DIVIDENDS DECLARED PER SHARE</b>	<b>\$ 0.86</b>

See accompanying notes to consolidated financial statements.



Table of Contents

## RESOURCE CAPITAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005

(in thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Deferred Equity Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount							
Common shares issued	15,333,334	\$ 15	\$ 215,310	\$	\$		\$	\$	\$ 215,325
Offering costs			(541)						(541)
Stock based compensation	349,000	1	5,392	(5,393)					
Amortization of stock based compensation				2,709					2,709
Net income						10,908		10,908	10,908
Available-for-sale securities, fair value adjustment					(22,357)			(22,357)	(22,357)
Designated derivatives, fair value adjustment					2,776			2,776	2,776
Distributions - Common Stock						(10,908)	(2,579)		(13,487)
Comprehensive loss								\$ (8,673)	
Balance, December 31, 2005	15,682,334	\$ 16	\$ 220,161	\$ (2,684)	\$ (19,581)	\$	\$ (2,579)		\$ 195,333

See accompanying notes to consolidated financial statements.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands)

	Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 10,908
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	5
Amortization of premium (discount) on available-for-sale securities	(362)
Amortization of debt issuance costs	461
Amortization of stock based compensation	2,709
Non-cash incentive compensation to the manager	86
Net realized gain on investments	(311)
Changes in operating assets and liabilities:	
Increase in restricted cash	(23,592)
Increase in interest receivable, net of purchased interest	(9,339)
Increase in due from broker	(525)
Increase in principal paydowns receivable	(5,805)
Increase in management fee payable	810
Increase in accounts payable and accrued liabilities	501
Increase in accrued interest expense	11,595
Increase in other assets	(1,365)
Net cash used in operating activities	(14,224)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of securities available-for-sale	(1,557,752)
Principal payments received on securities available-for-sale	136,688
Proceeds from sale of securities available-for-sale	8,483
Purchase of loans	(696,320)
Principal payments received on loans	35,130
Proceeds from sale of loans	91,023
Purchase of direct financing leases and notes	(25,097)
Payments received on direct financing leases and notes	1,780
Purchase of property and equipment	(5)
Net cash used in investing activities	(2,006,070)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Net proceeds from issuance of common stock (net of offering costs of \$541)	214,784
Proceeds from borrowings:	
Repurchase agreements	8,446,739
Warehouse agreements	600,633
Collateralized debt obligations	697,500
Unsecured revolving credit facility	15,000
Payments on borrowings:	
Repurchase agreements	(7,380,566)
Warehouse agreements	(537,672)
Payment of debt issuance costs	(10,554)
Distributions paid on common stock	(7,841)
Net cash provided by financing activities	2,038,023

<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		17,729
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$	17,729
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Distributions on common stock declared but not paid	\$	5,646
Issuance of restricted stock	\$	5,393
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Interest expense paid in cash	\$	46,268

See accompanying notes to consolidated financial statements.

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**NOTE 1 ORGANIZATION**

Resource Capital Corp. and subsidiaries (the Company) was incorporated in Maryland on January 31, 2005 and commenced its operations on March 8, 2005 upon receipt of the net proceeds from a private placement of shares of its common stock. The Company's principal business activity is to purchase and manage a diversified portfolio of real estate-related assets and commercial finance assets. The Company's investment activities are managed by Resource Capital Manager, Inc. (the Manager) pursuant to a management agreement (the Management Agreement) (see Note 9).

The Company intends to elect to be taxed as a real estate investment trust (REIT) for federal income tax purposes effective for its initial taxable year ending December 31, 2005 and to comply with the provisions of the Internal Revenue Code of 1986, as amended (the Code) with respect thereto. See Note 3 for further discussion on income taxes.

The Company has three wholly-owned subsidiaries: RCC Real Estate, Inc. (RCC Real Estate), RCC Commercial, Inc. (RCC Commercial) and Resource TRS, Inc. (Resource TRS). RCC Real Estate holds all of the Company's real estate investments, including commercial and residential real estate-related securities and real estate loans. RCC Commercial holds all of the Company's bank loan investments, equipment leases and notes and private equity investments. RCC Real Estate owns 100% of the equity interest in Ischus CDO II, Ltd. (Ischus CDO II), a Cayman Islands limited liability company and qualified REIT subsidiary (QRS). Ischus CDO II was established to complete a collateralized debt obligation (CDO) issuance secured by a portfolio of mortgage-backed and other asset-backed securities. RCC Commercial owns 100% of the equity interest in Apidos CDO I, Ltd. (Apidos CDO I), a Cayman Islands limited liability company and taxable REIT subsidiary (TRS). Apidos CDO I was established to complete a CDO secured by a portfolio of bank loans. As of December 31, 2005, the Company had also formed Apidos CDO III, Ltd. (Apidos CDO III), a Cayman Islands limited liability company that the Company has elected to treat as a TRS. RCC Commercial intends to purchase 100% of the equity interest in Apidos CDO III. Apidos CDO III was established to complete a CDO that will be secured by a portfolio of bank loans. As of December 31, 2005, there was no activity in Resource TRS.

**NOTE 2 BASIS OF PRESENTATION**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and entities which are variable interest entities (VIEs) in which the Company is the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46-R). In general, FIN 46-R requires an entity to consolidate a VIE when the entity holds a variable interest in the VIE and is deemed to be the primary beneficiary of the VIE. An entity is the primary beneficiary if it absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both.

Ischus CDO II, Apidos CDO I and Apidos CDO III are VIEs and are not considered to be qualifying special-purpose entities as defined by Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, (SFAS No. 140). The Company owns 100% of the equity (preference shares) issued by Ischus CDO II and Apidos CDO I and has provided a guarantee of the first \$20.0 million in losses for Apidos CDO III. As a result, the Company has determined it is the primary beneficiary of these entities and has included the accounts of these entities in the consolidated financial statements. See Note 3 for a further discussion of our VIEs.

All significant intercompany balances and transactions have been eliminated in consolidation.

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. Estimates affecting the accompanying consolidated financial statements include the fair values of the Company's investments and derivatives and the estimated life used to calculate amortization and accretion of premiums and discounts, respectively, on investments.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less (temporary cash investments) at the time of purchase, which are held at financial institutions.

**Restricted Cash**

Restricted cash consists of \$5.0 million of cash held in escrow in conjunction with a CDO transaction to be closed in 2006 and \$18.6 million of cash held in two completed CDO offerings.

**Due from Broker**

Amounts due from broker generally represent cash balances held with brokers as part of margin requirements related to hedging agreements.

**Securities Available for Sale**

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115), requires the Company to classify its investment portfolio as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally plans to hold most of its investments to maturity, it may, from time to time, sell any of its investments due to changes in market conditions or in accordance with its investment strategy. Accordingly, SFAS No. 115 requires the Company to classify all of its investment securities as available-for sale. All investments classified as available-for-sale are reported at fair value, based on market prices provided by dealers, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity.

The Company evaluates its available-for-sale investments for other-than-temporary impairment charges under SFAS No. 115, in accordance with Emerging Issues Task Force (EITF) 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. SFAS No. 115 and EITF 03-1 requires an investor to determine when an investment is considered impaired (i.e., a decline in fair value below its amortized cost), evaluate whether that impairment is other than temporary (i.e., the investment value will not be recovered over its remaining life), and, if the impairment is other than temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value. SFAS No. 115 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

Investment securities transactions are recorded on the trade date. Purchases of newly issued securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. Realized gains and losses on investment securities are determined on the specific identification method.





---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

**Interest Income Recognition**

Interest income on the Company's mortgage-backed and other asset-backed securities is accrued using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. Premiums and discounts are amortized or accreted into interest income over the lives of the securities also using the effective yield method (or a method that approximates effective yield), adjusted for the effects of estimated prepayments based on SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. For an investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires the Company to make estimates of future prepayment rates for its investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that the Company uses directly impact the estimated remaining lives of its investments. Actual prepayment estimates are reviewed as of each quarter end or more frequently if the Company becomes aware of any material information that would lead it to believe that an adjustment is necessary. If prepayment estimates are incorrect, the amortization or accretion of premiums and discounts may have to be adjusted, which would have an impact on future income.

**Loans**

The Company purchases participations in corporate leveraged loans and commercial real estate loans in the secondary market and through syndications of newly originated loans. Loans are held for investment; therefore, the Company initially records them at their purchase prices, and subsequently accounts for them based on their outstanding principal plus or minus unamortized premiums or discounts. In certain instances, where the credit fundamentals underlying a particular loan have changed in such a manner that the Company's expected return on investment may decrease, the Company may sell a loan held for investment due to adverse changes in credit fundamentals. Once the determination has been made by the Company that it no longer will hold the loan for investment, the Company will account for the loan at the lower of amortized cost or market value.

**Loan Interest Income Recognition**

Interest income on loans includes interest at stated rates adjusted for amortization or accretion of premiums and discounts. Premiums and discounts are amortized or accreted into income using the effective yield method. When the Company purchases a loan or pool of loans at a discount, it considers the provisions of AICPA Statement of Position (SOP) 03-3 Accounting for Certain Loans or Debt Securities Acquired in a Transfer to evaluate whether all or a portion of the discount represents accretable yield. If a loan with a premium or discount is prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase to interest income.

**Allowance and Provision for Loan Losses**

To estimate the allowance for loan losses, the Company first identifies impaired loans. Loans are generally evaluated for impairment individually, but loans purchased on a pooled basis with relatively smaller balances and substantially similar characteristics may be evaluated collectively for impairment. The Company considers a loan to be impaired when, based on current information and events, management believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, the allowance for loan losses is increased by the amount of the excess of the amortized

---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

cost basis of the loan over its fair value. Fair value may be determined based on market price, if available; the fair value of the collateral less estimated disposition costs; or the present value of estimated cash flows. Increases in the allowance for loan losses are recognized in the statements of operations as a provision for loan losses. A charge-off or write-down of a loan is recorded, and the allowance for loan losses is reduced, when the loan or a portion thereof is considered uncollectible and of such little value that further pursuit of collection is not warranted.

An impaired loan may be left on accrual status during the period the Company is pursuing repayment of the loan; however, the loan is placed on non-accrual status at such time as: (1) management believes that scheduled debt service payments will not be met within the coming 12 months; (2) the loan becomes 90 days delinquent; (3) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. While on non-accrual status, interest income is recognized only upon actual receipt.

As of December 31, 2005, the Company had not recorded an allowance for loan losses. At December 31, 2005, all of the Company's loans are current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and the observable secondary market prices, the Company did not identify any loans that exhibit characteristics indicating that impairment has occurred.

**Direct Financing Leases and Notes**

The Company invests in small- and middle-ticket equipment leases and notes. Investments in leases are recorded in accordance with SFAS No. 13, Accounting for Leases, as amended and interpreted. Direct financing leases and notes transfer substantially all benefits and risks of equipment ownership to the customer. The Company's investment in direct financing leases consists of the sum of the total future minimum lease payments receivable, less unearned finance income. Unearned finance income, which is recognized over the term of the lease by utilizing the effective interest method, represents the excess of the total future minimum lease payments over the cost of the related equipment. The Company's investment in notes receivable consists of the sum of the total future minimum loan payments receivable less unearned finance income. Unearned finance income, which is recognized as revenue over the term of the financing by the effective interest method, represents the excess of the total future minimum contract payments over the cost of the related equipment.

**Credit and Market Risk**

The Company's investments as of December 31, 2005, consist of mortgage-backed and other asset-backed securities, participations in corporate leveraged loans and commercial real estate loans, equipment leases and notes and private equity investments. The mortgage-backed and other asset-backed securities are securities that pass through collections of principal and interest from either underlying mortgages or other secured assets. Therefore, these securities may bear some exposure to credit loss. The Company mitigates some of this risk by holding a significant portion of its assets in securities that are issued by the Federal Home Loan Mortgage Corporation ( FHLMC ) and the Federal National Mortgage Association ( FNMA ). The payment of principal and interest on these securities is guaranteed by the respective issuing agencies. In addition, the Company's leveraged loans and commercial real estate loans may bear exposure to credit loss.

The Company bears certain other risks typical in investing in a portfolio of mortgage-backed and other asset-backed securities. Principal risks potentially affecting the Company's consolidated financial position, consolidated results of operations and consolidated cash flows include the risks that: (a) interest rate changes can negatively affect the market value of the Company's mortgage-backed and other asset-backed securities,

---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

(b) interest rate changes can influence decisions made by borrowers on the mortgages underlying the securities to prepay those mortgages, which can negatively affect both cash flows from, and the market value of, the securities, and (c) adverse changes in the market value of the Company's mortgage-backed securities and/or the inability of the Company to renew short-term borrowings can result in the need to sell securities at inopportune times and incur realized losses.

**Borrowings**

The Company finances the acquisition of its investments, including securities available-for-sale and loans, primarily through the use of secured borrowings in the form of repurchase agreements, warehouse agreements, CDOs and an unsecured revolving credit facility. The Company may use other forms of secured borrowing in the future. The Company recognizes interest expense on all borrowings on an accrual basis.

**Accounting for Certain MBS and Related Repurchase Agreements**

In certain circumstances, the Company has purchased debt investments from a counterparty and subsequently financed the acquisition of those debt investments through repurchase agreements with the same counterparty. The Company currently records the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated income statements. However, under a certain technical interpretation of SFAS 140, such transactions may not qualify as a purchase. The Company believes, and it is industry practice, that it is accounting for these transactions in an appropriate manner. However, the result of this technical interpretation would prevent the Company from presenting the debt investments and repurchase agreements and the related interest income and interest expense on a gross basis on the Company's financial statements. Instead, the Company would present the net investment in these transactions with the counterparty and a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of December 31, 2005, the Company had 19 transactions where debt instruments were financed with the same counterparty aggregating approximately \$307.3 million in MBS and \$294.2 million in financings under related repurchase agreements. As of March 28, 2006, the Company had one of these transactions remaining comprised of \$19.4 million of MBS and \$18.8 million in financings under related repurchase agreements. It is anticipated that this transaction will no longer be financed with the same counterparty as of March 31, 2006.

**Comprehensive Income**

Comprehensive income for the Company includes net income and the change in net unrealized gains/ (losses) on available-for-sale securities and derivative instruments used to hedge exposure to interest rate fluctuations and protect against declines in the market-value of assets resulting from general trends in debt markets.

**Income Taxes**

The Company expects to operate in a manner that will allow it to qualify and be taxed as a REIT and to comply with the provisions of the Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income ( Taxable Income ) which is distributed to its stockholders, provided that at least 90% of Taxable Income is distributed and certain other requirements are met. If the Company fails to meet these requirements and does not qualify for certain statutory relief provisions, it would be

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

subject to federal income tax. The Company has a wholly-owned domestic subsidiary, Resource TRS, that the Company and Resource TRS have elected to be treated as a taxable REIT subsidiary ( TRS ). For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by the Company with respect to its interest in Resource TRS, a domestic taxable REIT subsidiary, because it is taxed as a regular subchapter C corporation under the provisions of the Code. As of December 31, 2005, Resource TRS did not have any taxable income. Apidos CDO I, the Company's foreign TRS is organized as an exempted company incorporated with limited liability under the laws of the Cayman Islands, and is generally exempt from federal and state income tax at the corporate level because its activities in the United States are limited to trading in stock and securities for its own account. Therefore, despite its status as a TRS, it generally will not be subject to corporate tax on its earnings and no provision for income taxes is required; however because it is a controlled foreign corporation, the Company will generally be required to include Apidos CDO I's current taxable income in its calculation of REIT taxable income. The Company also intends to make an election to treat Apidos CDO III as a TRS.

**Stock Based Compensation**

Pursuant to its 2005 Stock Incentive Plan (see Note 15), the Company granted 345,000 shares of restricted stock and options to purchase 651,666 shares of common stock to its Manager. A holder of the restricted shares has all of the rights of a stockholder of the Company, including the right to vote such shares and receive dividends. The Company accounts for the restricted stock and stock options in accordance with EITF 96-18, Accounting for Equity Instruments that are issued to other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, ( EITF 96-18 ) and SFAS No. 123, Accounting for Stock-Based Compensation, ( SFAS No. 123 ). In accordance with EITF 96-18, the stock and options are recorded in stockholders' equity at fair value through an increase to additional paid-in-capital and an off-setting entry to deferred equity compensation (a contra-equity account). The deferred compensation is amortized over a three year graded vesting period with the amortization expense reflected as equity compensation expense. The unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. Any change in fair value is reflected in the equity compensation expense recognized in that quarter and in future quarters until the stock and options are fully vested.

The Company also issued 4,000 shares of restricted stock to its directors on March 8, 2005. The stock awards vest in full one year after the date of the grant. The Company accounts for this issuance using the fair value based methodology prescribed by SFAS No. 123. Pursuant to SFAS No. 123, the fair value of the award is measured on the grant date and recorded in stockholders' equity through an increase to additional paid-in capital and an offsetting entry to deferred equity compensation (a contra-equity account). This amount is not remeasured under the fair value based method. The deferred compensation is amortized and included in equity compensation expense.

**Incentive Compensation**

The Management Agreement provides for incentive compensation if the Company's financial performance exceeds certain benchmarks. See Note 9 for further discussion on the specific terms of the computation and payment of the incentive fee.

The incentive fee will be paid up to 75% in cash and at least 25% in restricted stock. The cash portion of the incentive fee is accrued and expensed during the period for which it is calculated and earned. In accordance with SFAS No. 123 and EITF 96-18, the restricted stock portion of the incentive fee is also accrued and expensed during the period for which it is calculated and earned. Shares granted in connection with the incentive fee will

---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

vest immediately. For the period from March 8, 2005 to December 31, 2005, the Manager earned an incentive management fee of \$344,000. Based on the terms of the Management Agreement, the Manager will be paid its incentive management fee partially by the issuance of 5,738 of common shares and partially in cash totaling approximately \$258,000. The incentive fee is payable in February 2006.

**Net Income Per Share**

In accordance with the provisions of SFAS No. 128, Earnings per Share, the Company calculates basic income per share by dividing net income for the period by weighted-average shares of its common stock, including vested restricted stock, outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options and unvested restricted stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding (see Note 8).

**Derivative Instruments**

The Company's policies permit it to enter into derivative contracts, including interest rate swaps and interest rate caps to add stability to its interest expense and to manage its exposure to interest rate movements or other identified risks.

The Company designates its derivative instruments as cash flow hedges and evaluates them at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. A hedge instrument is highly effective if changes in the fair value of the derivative provide an offset to at least 80% and not more than 125% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, the Company recognizes all derivatives as either assets or liabilities in the consolidated balance sheet and measures those instruments at their fair values. Any ineffectiveness which arises during the hedging relationship is recognized in interest expense during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gain and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on futures contracts are reclassified into earnings as an adjustment to interest expense during the specified hedge time period. Realized gains and losses on interest rate swap contracts are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap.

If the Company determines not to designate the interest rate swap and cap contracts as hedges and to monitor their effectiveness as hedges, or if the Company enters into other types of financial instruments that do not meet the criteria for designation as hedges, changes in the fair values of these instruments will be recorded in the statement of operations, potentially resulting in increased volatility in the Company's earnings.

**Variable Interest Entities**

In December 2003, the FASB issued FIN 46-R. FIN 46-R addresses the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to a VIE and requires that the assets, liabilities and results of operations of a VIE be consolidated into the financial statements of the enterprise that has a controlling financial interest in it. The interpretation provides a framework for determining whether an entity should be evaluated for consolidation based on voting interests or significant financial support provided to the entity

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

( variable interests ). The Company considers all counterparties to the transaction to determine whether a counterparty is a VIE and, if so, whether the Company's involvement with the entity results in a variable interest in the entity. If the Company is determined to have a variable interest in the entity, an analysis is performed to determine whether the Company is the primary beneficiary.

During April 2005, the Company entered into warehouse and master participation agreements with an affiliate of Credit Suisse Securities (USA) LLC ( CS ) providing that CS would fund the purchase of loans by Apidos CDO I during the warehouse period in return for a participation interest in the interest earned on the loans of LIBOR plus 0.25%. In addition, the agreements provided for a guarantee by the Company to CS of the first \$24.0 million in losses on the portfolio of bank loans. Upon review of the transaction, the Company determined that Apidos CDO I was a VIE under FIN 46-R and the Company was the primary beneficiary of the VIE. As a result, the Company consolidated Apidos CDO I at June 30, 2005. On August 4, 2005, the CS agreements were terminated and the warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO I. The Company owns 100% of the equity issued by Apidos CDO I and is deemed to be the primary beneficiary. As a result, the Company consolidated Apidos CDO I at December 31, 2005.

On July 29, 2005, the Company terminated its Ischus CDO II warehouse agreement with CS and the warehouse funding liability was replaced with the issuance of long-term debt by Ischus CDO II. The Company owns 100% of the equity issued by Ischus CDO II and is deemed to be the primary beneficiary. As a result, the Company consolidated Ischus CDO II at December 31, 2005.

During July 2005, the Company entered into warehouse and master participation agreements with an affiliate of Citigroup Global Markets Inc. ( Citigroup ) providing that Citigroup will fund the purchase of loans by Apidos CDO III during the warehouse period in return for a participation interest in the interest earned on the loans of LIBOR plus 0.25%. In addition, the agreements provide for a guarantee by the Company to Citigroup of the first \$20.0 million in losses on the portfolio of bank loans. As of December 31, 2005, the Company has \$5.0 million held in an escrow account in connection with the CDO. Upon review of the transaction, the Company determined that Apidos CDO III is a VIE under FIN 46-R and the Company is the primary beneficiary of the VIE. As a result, the Company consolidated Apidos CDO III as of December 31, 2005, even though the Company does not own any of its equity. The impact of the consolidation of this VIE on the December 31, 2005 balance sheet was to:

increase loans, net of allowance, by \$63.0 million, which represents bank loans held by Apidos CDO III; and

increase warehouse agreements by \$63.0 million, which represents the settlement of Apidos CDO III bank loans.

**Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123-R, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123-R supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach to accounting in Statement 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the issuer's financial statements based on their fair value. The Company is required to adopt the provisions of the standard for the annual period beginning after June 15, 2005. The Company does not expect that the adoption of SFAS No. 123-R will have a material effect on the Company's financial condition, results of operation or liquidity.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2005**

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, ( SFAS 154 ) which replaces Accounting Principles Board Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for, and reporting of, accounting changes and error corrections. It established retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not currently expect that the new guidance will have a material impact on the Company's financial condition, results of operations or cash flows.

**NOTE 4 SECURITIES AVAILABLE-FOR-SALE**

The following table summarizes the Company's mortgage-backed securities, other asset-backed securities and private equity investments, including those pledged as collateral, classified as available-for-sale as of December 31, 2005, which are carried at fair value (in thousands):

	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
Agency residential mortgage-backed	\$ 1,014,575	\$ 13	\$ (12,918)	\$ 1,001,670
Non-agency residential mortgage-backed	346,460	370	(9,085)	337,745
Commercial mortgage-backed	27,970	1	(608)	27,363
Other asset-backed	22,045	24	(124)	21,945
Private equity	1,984		(30)	1,954
Total fair value	\$ 1,413,034	\$ 408	\$ (22,765)	\$ 1,390,677 <sup>(1)</sup>

(1) Other than \$26.3 million in agency residential mortgage backed securities and \$2.0 million in private equity investments, all securities are pledged as collateral as of December 31, 2005.

The actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Actual maturities of the Company's mortgage-backed securities are affected by the contractual lives of the underlying mortgages, periodic scheduled payments of principal, and prepayments of principal, which are presented in principal paydowns receivable in the Company's consolidated balance sheet.

The following table summarizes the estimated maturities of the mortgage-backed securities, other asset-backed securities and private equity investments as of December 31, 2005 according to their estimated weighted-average life classifications (in thousands, except percentages):

<b>Weighted Average Life</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Average Coupon</b>
Less than one year	\$	\$	%
Greater than one year and less than five years	1,355,910	1,377,537	4.91%
Greater than five years	34,767	35,497	5.60%
Total	\$ 1,390,677	\$ 1,413,034	4.92%

The estimated weighted-average lives of the Company's mortgage-backed and other asset-backed securities as of December 31, 2005 in the table above are based upon data provided through subscription-based financial information services, assuming constant principal prepayment factors

to the balloon or reset date for each

F-39



**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2005**

security. The prepayment model considers current yield, forward yield, steepness of the yield curve, current mortgage rates, mortgage rate of the outstanding loan, loan age, margin and volatility. The actual weighted-average lives of the agency residential mortgage-backed securities in the Company's investment portfolio could be longer or shorter than the estimates in the table above depending on the actual prepayment factors experienced over the lives of the applicable securities and are sensitive to changes in both prepayment factors and interest rates.

The following table shows the Company's investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005 (in thousands):

	Less than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency residential mortgage-backed	\$ 978,570	\$ (12,918)	\$ 978,570	\$ (12,918)
Non-agency residential mortgage-Backed	294,359	(9,085)	294,359	(9,085)
Commercial mortgage-backed	26,905	(608)	26,905	(608)
Other asset-backed	12,944	(124)	12,944	(124)
Private equity	1,954	(30)	1,954	(30)
Total temporarily impaired securities	\$ 1,314,732	\$ (22,765)	\$ 1,314,732	\$ (22,765)

The temporary impairment of the available-for-sale securities results from the fair value of the securities falling below the amortized cost basis and is solely attributed to changes in interest rates. As of December 31, 2005, none of the securities held by the Company had been downgraded by a credit rating agency since their purchase. The Company intends and has the ability to hold the securities until the fair value of the securities held is recovered, which may be maturity if necessary. As such, the Company does not believe any of the securities held are other-than-temporarily impaired at December 31, 2005.

**NOTE 5 LOANS**

The following is a summary of the Company's loans at December 31, 2005 (in thousands).

Loan Description	Principal	Unamortized Premium	Net Amortized Cost
Bank loans	\$ 397,869	\$ 916	\$ 398,785
B notes	121,945		121,945
Mezzanine loans	49,500		49,500
Total	\$ 569,314	\$ 916	\$ 570,230

At December 31, 2005, the Company's bank loan portfolio consisted of \$398.5 million of floating rate loans, which bear interest between LIBOR plus 1.00% and 7.00% with maturity dates ranging from April 2006 to October 2020, and a \$250,000 fixed rate loan, which bears interest at 6.25% with a maturity date of August 2015.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

At December 31, 2005, the Company's commercial real estate loan portfolio consisted of seven B notes with an amortized cost of \$121.9 million which bear interest at floating rates ranging from LIBOR plus 2.15% to LIBOR plus 6.25% and have maturity dates ranging from January 2007 to April 2008, and four mezzanine loans

F-40

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2005**

consisting of \$44.5 million of floating rate loans, which bear interest between LIBOR plus 2.25% and 4.50% with maturity dates ranging from August 2007 to July 2008, and a \$5.0 million fixed rate loan, which bears interest at 9.50% and matures May 2010.

As of December 31, 2005, the Company had not recorded an allowance for loan losses. At December 31, 2005, all of the Company's loans are current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and the observable secondary market prices, the Company did not identify any loans with characteristics indicating that impairment had occurred.

**NOTE 6 INVESTMENT IN DIRECT FINANCING LEASES AND NOTES**

The Company's direct financing leases have an initial lease term of 54 months. The interest rates on notes receivable range from 8% to 9%. Investments in direct financing leases and notes as of December 31, 2005 are as follows (in thousands):

	<b>As of December 31, 2005</b>
Direct financing leases	\$ 18,141
Notes receivable	5,176
<b>Total</b>	<b>\$ 23,317</b>

The components of the net investment in direct financing leases as of December 31, 2005 are as follows (in thousands):

	<b>As of December 31, 2005</b>
Total future minimum lease payments	\$ 21,370
Unearned rental income	(3,229)
<b>Total</b>	<b>\$ 18,141</b>

The future minimum lease payments and related rental payments expected to be received on non-cancelable direct financing leases and notes at December 31, 2005 are as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Direct Financing Leases</b>	<b>Notes</b>	<b>Total</b>
2006	\$ 6,717	\$ 424	\$ 7,141
2007	6,180	459	6,639
2008	4,856	500	5,356
2009	2,085	543	2,628
2010	1,431	591	2,022
Thereafter	101	2,659	2,760

\$ 21,370 \$ 5,176 \$ 26,546

F-41

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2005****NOTE 7 BORROWINGS**

The Company finances the acquisition of its investments, including securities available-for-sale and loans, primarily through the use of secured borrowings in the form of repurchase agreements, warehouse facilities, CDOs and other secured borrowings. The Company recognizes interest expense on all borrowings on an accrual basis.

Certain information with respect to the Company's borrowings as of December 31, 2005 is summarized in the following table (dollars in thousands):

	<b>Apidos</b>					
	<b>Repurchase Agreements</b>	<b>Ischus CDO II Senior Notes<sup>(1)</sup></b>	<b>CDO I Senior Notes<sup>(2)</sup></b>	<b>Apidos CDO III Warehouse Agreement</b>	<b>Unsecured Revolving Credit Facility</b>	<b>Total</b>
Outstanding borrowings	\$ 1,068,277	\$ 370,569	\$ 316,838	\$ 62,961	\$ 15,000	\$ 1,833,645
Weighted-average borrowing rate	4.48%	4.80%	4.42%	4.29%	6.37%	4.54%
Weighted-average remaining maturity	17 days	34.6 years	11.6 years	90 days	3.0 years	
Value of the collateral	\$ 1,146,711	\$ 387,053	\$ 335,831	\$ 62,954	\$ 45,107	\$ 1,977,656

(1) Amount represents principal outstanding of \$376.0 million less unamortized issuance costs of \$5.4 million.

(2) Amount represents principal outstanding of \$321.5 million less unamortized issuance costs of \$4.7 million.

At December 31, 2005, the Company had repurchase agreements with the following counterparties (dollars in thousands):

	<b>Amount at Risk<sup>(1)</sup></b>	<b>Weighted- Average Maturity in Days</b>	<b>Weighted- Average Interest Rate at December 31, 2005</b>
Credit Suisse Securities (USA) LLC	\$ 31,158	17	4.34%
Bear, Stearns International Limited	\$ 36,044	17	5.51%
Deutsche Bank AG, Cayman Islands Branch	\$ 16,691	18	5.68%

(1) Equal to the fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

In July 2005, the Company closed Ischus CDO II, a \$400.0 million CDO transaction that provides financing for mortgage-backed and other asset-backed securities. The investments held by Ischus CDO II collateralize the debt issued by the transaction and, as a result, those investments are not available to the Company, its creditors or stockholders. Ischus CDO II issued a total of \$376.0 million of senior notes at par to investors and RCC Real Estate purchased a \$27.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinate in right-of-payment to all other securities issued by the CDO.

The senior notes issued to investors by Ischus CDO II consist of the following classes: (i) \$214.0 million of class A-1A notes bearing interest at 1-month LIBOR plus 0.27%; (ii) \$50.0 million of class A-1B delayed draw notes bearing interest on the drawn amount at 1-month LIBOR plus

## Edgar Filing: Resource Capital Corp. - Form S-11/A

0.27%; (iii) \$28.0 million of class A-2 notes bearing interest at 1-month LIBOR plus 0.45%; (iv) \$55.0 million of class B notes bearing interest at 1-month LIBOR plus 0.58%; (v) \$11.0 million of class C notes bearing interest at 1-month LIBOR plus 1.30%; and (vi) \$18.0 million of class D notes bearing interest at 1-month LIBOR plus 2.85%. All of the notes issued mature on August 6, 2040, although the Company has the right to call the notes at par any time after August 6, 2009 until maturity.

F-42

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

In August 2005, the Company closed Apidos CDO I, a \$350.0 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO I collateralize the debt issued by the transaction, and as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO I issued a total of \$321.5 million of senior notes at par to investors and RCC Commercial purchased a \$28.5 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right-of-payment to all other securities issued by the CDO.

The senior notes issued to investors by Apidos CDO I consists of the following classes: (i) \$265.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) \$15.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.42%; (iii) \$20.5 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) \$13.0 million of class C notes bearing interest at 3-month LIBOR plus 1.85%; and (v) \$8.0 million of class D notes bearing interest at a fixed rate of 9.251%. All of the notes issued mature on July 27, 2017, although the Company has the right to call the notes anytime after July 27, 2010 until maturity.

In July 2005, the Company formed Apidos CDO III and began borrowing on a warehouse facility provided by a major financial institution to purchase loans to include in Apidos CDO III. At December 31, 2005, Apidos CDO III had borrowed \$63.0 million. The facility allows borrowings of up to \$200.0 million which can be increased upon mutual agreement of the parties. The facility bears interest at a rate of LIBOR plus 0.25%, which was 4.61% at December 31, 2005. RCC Commercial intends to purchase 100% of the equity interest in Apidos CDO III upon execution of the CDO transaction.

The Company entered into a master repurchase agreement with CS, to finance the purchase of agency ABS-RMBS securities. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At December 31, 2005, the Company had borrowed \$947.1 million with a weighted average interest rate of 4.34%.

In August 2005, the Company entered into a master repurchase agreement with Bear, Stearns International Limited to finance the purchase of commercial real estate loans. The maximum amount of the Company's borrowing under the repurchase agreement is \$150.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At December 31, 2005, the Company had borrowed \$80.6 million with a weighted average interest rate of LIBOR plus 1.14%, which was 5.51% at December 31, 2005.

In December 2005, the Company entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch, to finance the purchase of commercial real estate loans. The maximum amount of the Company's borrowing under the repurchase agreement is \$300.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At December 31, 2005, the Company had borrowed \$38.5 million with a weighted average interest rate of LIBOR plus 1.32%, which was 5.68% at December 31, 2005.

In December 2005, the Company entered into a \$15.0 million unsecured revolving credit facility with Commerce Bank, N.A. Outstanding borrowings bear interest at one of two rates elected at the Company's option; (i) the lender's prime rate plus a margin ranging from 0.50% to 1.50% based upon the Company's leverage ratio; or (ii) LIBOR plus a margin ranging from 1.50% to 2.50% based upon the Company's leverage ratio. The facility expires in December 2008. As of December 31, 2005, the balance outstanding was \$15.0 million at an interest rate of 6.37%.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2005****NOTE 8 CAPITAL STOCK AND EARNINGS PER SHARE**

The Company had 500,000,000 shares of common stock par value \$0.001 per share authorized and 15,682,334 shares (including 349,000 restricted shares) outstanding as of December 31, 2005. The Company had 100,000,000 shares of par value \$0.001 preferred stock authorized and none issued and outstanding as of December 31, 2005.

On March 8, 2005, the Company completed a private placement of 15,333,334 shares of common stock, \$0.001 par value at an offering price of \$15.00 per share, including the sale of 666,667 shares of common stock pursuant to the over-allotment option of the initial purchasers/placement agents. The Company received proceeds from these transactions in the amount of \$214.8 million, net of underwriting discounts and commissions, placement agent fees and other offering costs.

On March 8, 2005, the Company granted 345,000 shares of restricted common stock, par value \$0.001 and options to purchase 651,666 common shares at an exercise price of \$15.00 per share, to the Manager (see Note 15). The restrictions with respect to the restricted common stock lapse and full rights of ownership vest for one-third of the shares and options on the first anniversary of the grant date, for one-third of the shares on the second anniversary and for the last one-third of the shares on the third anniversary. Vesting is predicated on the continuing involvement of the Manager in providing services to the Company. In addition, the Company granted 4,000 shares of restricted common stock to the Company's non-employee directors as part of their annual compensation. These shares vest in full on the first anniversary of the date of the grant.

The fair value of the shares of restricted stock granted, including shares issued to the directors, was \$5,235,000, of which \$2.6 million was expensed for the period from March 8, 2005 to December 31, 2005. The fair value of the total options granted was \$158,300, of which approximately \$79,000 was expensed for the period from March 8, 2005 to December 31, 2005. The fair value of each option grant at December 31, 2005 is \$0.243, estimated on the measurement date using the Black-Scholes option-pricing model with the following weighted-average assumptions as of December 31, 2005: dividend yield of 12.00 percent; expected volatility of 20.11%, risk-free interest rate of 4.603%; and expected life of 10 years.

The following table presents a reconciliation of basic and diluted earnings per share for the period from March 8, 2005 (date operations commenced) to December 31, 2005 (in thousands, except share and per share amounts):

	<b>Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005</b>
<b>Basic:</b>	
Net income	\$ 10,908
Weighted-average number of shares outstanding	15,333,334
Basic net income per share	\$ 0.71
<b>Diluted:</b>	
Net income	\$ 10,908
Weighted-average number of common shares outstanding	15,333,334



Edgar Filing: Resource Capital Corp. - Form S-11/A

Additional shares due to assumed conversion of dilutive instruments	72,380
Adjusted weighted-average number of common shares outstanding	15,405,714
Diluted net income per share	\$ 0.71

F-44

---

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

**NOTE 9 THE MANAGEMENT AGREEMENT**

On March 8, 2005, the Company entered into a Management Agreement pursuant to which the Manager will provide the Company investment management, administrative and related services. The Manager receives fees and is reimbursed for its expenses as follows:

A monthly base management fee equal to 1/12th of the amount of the Company's equity multiplied by 1.50%. Under the Management Agreement, equity is equal to the net proceeds from any issuance of shares of common stock less other offering related costs plus or minus the Company's retained earnings (excluding non-cash equity compensation incurred in current or prior periods) less any amounts the Company paid for common stock repurchases. The calculation may be adjusted for one-time events due to changes in GAAP as well as other non-cash charges, upon approval of the independent directors of the Company.

Incentive compensation calculated as follows: (i) 25% of the dollar amount by which, (A) the Company's net income (determined in accordance with GAAP) per common share (before non-cash equity compensation expense and incentive compensation) for a quarter (based on the weighted average number of shares outstanding) exceeds, (B) an amount equal to (1) the weighted average share price of shares of common stock in the offerings of the Company, multiplied by, (2) the greater of (A) 2.00% or (B) 0.50% plus one-fourth of the Ten Year Treasury rate as defined in the Management Agreement for such quarter, multiplied by, (ii) the weighted average number of common shares outstanding for the quarter. The calculation may be adjusted for one-time events due to changes in GAAP as well as other non-cash charges upon approval of the independent directors of the Company.

Reimbursement of out-of-pocket expenses and certain other costs incurred by the Manager that relate directly to the Company and its operations.

Incentive compensation is paid quarterly. Up to 75% of the incentive compensation is paid in cash and at least 25% is paid in the form of a stock award. The Manager may elect to receive more than 25% of its incentive compensation in stock. All shares are fully vested upon issuance. However, the Manager may not sell such shares for one year after the incentive compensation becomes due and payable. Shares payable as incentive compensation are valued as follows:

if such shares are traded on a securities exchange, at the average of the closing prices of the shares on such exchange over the thirty day period ending three days prior to the issuance of such shares;

if such shares are actively traded over-the-counter, at the average of the closing bid or sales price as applicable over the thirty day period ending three days prior to the issuance of such shares; and

if there is no active market for such shares, the value shall be the fair market value thereof, as reasonably determined in good faith by the board of directors of the Company.

The initial term of the Management Agreement ends March 31, 2008. The Management Agreement automatically renews for a one year term at the end of the initial term and each renewal term. With a two-thirds vote of the independent directors, the independent directors may elect to terminate the Management Agreement because of the following:

unsatisfactory performance; and/or

unfair compensation payable to the Manager where fair compensation cannot be agreed upon by the Company (pursuant to a vote of two-thirds of the independent directors) and the Manager.

In the event that the Agreement is terminated based on the provisions disclosed above, the Company must pay the Manager a termination fee equal to four times the sum of the average annual base management fee and

F-45

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

the average annual incentive during the two 12-month periods immediately preceding the date of such termination. The Company is also entitled to terminate the Management Agreement for cause (as defined therein) without payment of any termination fee.

The base and incentive management fees for the period from March 8, 2005 to December 31, 2005 were approximately \$2.7 million and \$344,000, respectively.

**NOTE 10 RELATED-PARTY TRANSACTIONS**

At December 31, 2005, the Company was indebted to the Manager for base and incentive management fees of approximately \$552,000 and \$344,000, respectively, and reimbursement of expenses of approximately \$143,000. These amounts are included in management fee payable and accounts payable and accrued liabilities, respectively.

At December 31, 2005, the Company was indebted to LEAF Financial Corporation for servicing fees in connection with our equipment finance portfolio of approximately \$41,000.

At December 31, 2005, the corporate parent of the Manager owned a 6.4% ownership interest in the Company, consisting of 1,000,000 shares purchased in the private placement. Certain officers of the Manager and its affiliates purchased 232,167 shares of the Company's common stock in the Company's private placement for \$3.5 million, constituting 1.5% of the outstanding shares of the Company's common stock as of December 31, 2005. All such shares were purchased at the same price at which shares were purchased by other third party investors.

Until 1996, the Company's Chairman, Edward Cohen, was of counsel to Ledgewood Law Firm. The Company paid Ledgewood \$876,000 during the period from March 8, 2005 to December 31, 2005. Mr. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliations with Ledgewood and its redemption of his interest.

**NOTE 11 DISTRIBUTIONS**

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income in order not to be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute substantially all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow to make sufficient distribution payments.

During the year ended December 31, 2005, the Company declared and paid distributions totaling \$13.5 million, or \$0.86 per share, including a distribution of \$0.36 per share of common stock, including holders of restricted stock, \$5.6 million in the aggregate, declared on December 29, 2005 and paid on January 17, 2006 to stockholders of record as of December 30, 2005. For tax purposes, 100% of the distributions declared in 2005 have been classified as ordinary income.

On January 13, 2006, the Company paid a special dividend to stockholders of record on January 4, 2006, including holders of restricted stock, consisting of warrants to purchase our common stock. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$15.00 per share. Stockholders received

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

one warrant for each ten shares of common stock and restricted stock held. If an existing stockholder owned shares in other than a ten-share increment, the stockholder received an additional warrant. The warrants will expire on January 13, 2009 and will not be exercisable until January 13, 2007. An aggregate of 1,568,244 shares are issuable upon exercise of the warrants.

**NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS**

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate value. The fair value of available-for-sale securities, derivatives and direct financing leases and notes is equal to their respective carrying value presented in the consolidated balance sheet. The fair value of loans held for investment was \$571.7 million as of December 31, 2005. The fair value of cash and cash equivalents, restricted cash, interest receivable, due from broker, principal paydowns receivables, repurchase agreements (including accrued interest), warehouse agreements liability, distribution payable, management fee payable, accounts payable and accrued liabilities approximates carrying value as of December 31, 2005 due to the short-term nature of these instruments.

**NOTE 13 INTEREST RATE RISK**

The primary market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the exiting collateral to reduce borrowing levels.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. During periods of changing interest rates, interest rate mismatches could negatively impact the Company's consolidated financial condition, consolidated results of operations and consolidated cash flows. In addition, the Company mitigates the potential impact on net income of periodic and lifetime coupon adjustment restrictions in its investment portfolio by entering into interest rate hedging agreements such as interest rate caps and interest rate swaps.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on mortgage-backed securities of the type in the Company's investment portfolio. The Company seeks to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. At December 31, 2005, the aggregate discount exceeded the aggregate premium on the Company's mortgage-backed securities by approximately \$2.8 million.

**NOTE 14 DERIVATIVE INSTRUMENTS**

The Company uses derivative financial instruments to hedge all or a portion of the interest rate risk associated with its borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the

**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

Company and its affiliates may also have other financial relationships. In the event of nonperformance by the counterparties, the Company is potentially exposed to credit loss. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. On the date the Company enters into a derivative contract, the derivative is designated as either: (1) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge) or (2) a contract not designated as a hedge for hedge accounting ( free standing derivative).

At December 31, 2005, the Company had entered into six interest rate swap contracts whereby the Company will pay an average fixed rate of 3.89% and receive a variable rate equal to one-month and three-month LIBOR. The aggregate notional amount of these contracts is \$972.2 million. In addition, the Company had purchased one interest rate cap agreement whereby it reduced its exposure to variability in future cash out flows attributable to changes in LIBOR. The aggregate notional amount of this contract is \$15.0 million.

The interest rate swap and cap agreements ( hedge instruments ) were entered into to hedge the Company s exposure to variable cash flows from forecasted variable rate financing transactions and, pursuant to SFAS No. 133, the hedge instruments were designated as cash flow hedges. The hedge instruments were evaluated at inception and the Company concluded that each hedge instrument is expected to be highly effective pursuant to the rules of SFAS No. 133, as amended and interpreted. As such, the Company accounts for the hedge instruments using hedge accounting and records them at their fair market value each accounting period with any changes in fair market value being recorded in accumulated other comprehensive income. The hedge instruments will be evaluated on an ongoing basis to determine whether they continue to qualify for hedge accounting. Each hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. Should there be any ineffectiveness in the future, the amount of the ineffectiveness will be recorded in the Company s consolidated statement of operations.

The fair value of the Company s interest rate swaps and interest rate cap was \$3.0 million as of December 31, 2005. The Company had an aggregate unrealized gain of \$2.8 million on the interest rate swap agreements and interest rate cap agreement as of December 31, 2005, which is recorded in accumulated other comprehensive loss.

**NOTE 15 STOCK INCENTIVE PLAN**

Upon formation of the Company, the 2005 Stock Incentive Plan (the Plan ) was adopted for the purpose of attracting and retaining executive officers, employees, directors and other persons and entities that provide services to the Company. The Plan authorizes the issuance of options to purchase common stock and the grant of stock awards, performance shares and stock appreciation rights.

Up to 1,533,333 shares of common stock are available for issuance under the Plan. The share authorization, the incentive stock option limit and the terms of outstanding awards will be adjusted as the board of directors determines is appropriate in the event of a stock dividend, stock split, reclassification of shares or similar events. Upon completion of the March 2005 private placement, the Company granted the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of common stock with an exercise price of \$15.00 per share under the Plan, none of which were exercisable as of December 31, 2005. The Company s non-employee directors were also granted 4,000 shares of restricted stock as part of their annual compensation.

**Table of Contents****RESOURCE CAPITAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2005****NOTE 16 INCOME TAXES**

The Company intends to elect to be taxed as a REIT for federal income tax purposes effective for its initial taxable year ending December 31, 2005. Accordingly, the Company and its qualified REIT subsidiaries are not subject to federal income tax to the extent that their distributions to stockholders satisfy the REIT requirements and certain asset, income and ownership tests. The Company may retain up to 10% of its REIT taxable income and pay corporate income taxes on this retained income while continuing to maintain its REIT status. The Company intends to distribute 100% of its 2005 ordinary REIT taxable income and, accordingly, the Company has not recorded a provision for income taxes. The Company may be subject to franchise taxes in certain states that impose taxes on REITs.

Apidos CDO I and Apidos CDO III, the Company's foreign taxable REIT subsidiaries, are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands, and are generally exempt from federal and state income tax at the corporate entity level because they restrict their activities in the United States to trading in stock and securities for their own account. Therefore, despite their status as taxable REIT subsidiaries, they generally will not be subject to corporate income tax on their earnings, and no provisions for income taxes are required; however, the Company will generally be required to include their current taxable income in its calculation of REIT taxable income.

Resource TRS, a domestic taxable REIT subsidiary is subject to corporate income tax on its earnings. Resource TRS is inactive and as a result no provision for income taxes has been recorded. In addition, Resource TRS does not have any items which give rise to temporary differences between the GAAP consolidated financial statements and the federal income tax basis of assets and liabilities as of the consolidated balance sheet date. Accordingly, Resource TRS has no deferred income tax assets and liabilities recorded.

**NOTE 17 QUARTERLY RESULTS**

The following is a presentation of the quarterly results of operations for the year ended December 31, 2005:

	<b>Period from March 8-31 (audited)</b>	<b>June 30 (audited)</b>	<b>September 30 (unaudited)</b>	<b>December 31 (audited)</b>
	<b>(in thousands, except per share data)</b>			
Interest income	\$ 694	\$ 12,399	\$ 21,596	\$ 26,698
Interest expense	210	7,930	15,595	19,327
Net interest income	484	4,469	6,001	7,371
Other revenue (loss)		(14)	192	133
Expenses	532	2,175	2,417	2,604
Net (loss) income	\$ (48)	\$ 2,280	\$ 3,776	\$ 4,900
Net (loss) income available to Common Stockholders	\$ (48)	\$ 2,280	\$ 3,776	\$ 4,900
Net income (loss) per share - basic	\$ (0.00)	\$ 0.15	\$ 0.25	\$ 0.32
Net income (loss) per share - diluted	\$ (0.00)	\$ 0.14	\$ 0.24	\$ 0.32





**Table of Contents**

**RESOURCE CAPITAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2005**

**NOTE 18 SUBSEQUENT EVENTS**

On February 10, 2006, the Company completed the initial public offering of 4,000,000 shares of its common stock (including 1,879,200 shares sold by certain selling stockholders of the Company) at a price of \$15.00 per share. The offering generated gross proceeds to the Company of approximately \$31.8 million and net proceeds to the Company, after deducting the underwriters' discounts and commissions and estimated offering expenses, of approximately \$27.6 million. The Company did not receive any proceeds from the shares sold by the selling stockholders.

On March 16, 2006, the board of directors declared a quarterly distribution of \$0.33 per share of common stock, \$5.9 million in the aggregate, which will be paid on April 10, 2006 to stockholders of record as of March 27, 2006.

F-50

---

Table of Contents

---

---

**RESOURCE CAPITAL CORP.**

**6,000,000 Shares**

**Common Stock**

—————  
**PROSPECTUS**

**, 2006**

—————

---

---

**Table of Contents****PART II. INFORMATION NOT REQUIRED IN PROSPECTUS****Item 30. Quantitative and Qualitative Disclosures about Market Risk**

Contained in this prospectus included as part of this registration statement, under the caption "Qualitative and Quantitative Disclosures about Market Risks" in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" and by this reference included herein.

**Item 31. Other Expenses of Issuance and Distribution.**

The following table sets forth the costs and expenses of the sale and distribution of the securities being registered, all of which are being borne by the Registrant.

Securities and Exchange Commission registration fee	\$ 13,375
NASD filing fee	13,000
Printing and engraving fees	175,000
Legal fees and expenses	125,000
Accounting fees and expenses	175,000
Transfer agent and registrar fees	3,500
Miscellaneous	95,125
Total	\$ 600,000

\* All expenses, other than the SEC registration fee and the NASD filing fee are estimated.

**Item 32. Sales to Special Parties.**

See the response to Item 33 below.

**Item 33. Recent Sales of Unregistered Securities.**

On January 31, 2005, in connection with the incorporation of Resource Capital Corp. (the "Company"), the Company issued 1,000 shares of common stock, \$0.001 par value per share (the "Common Stock") to Resource America, Inc. ("RAI") for \$1,000. Such issuance was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(2) thereof. These shares of Common Stock were redeemed upon completion of the Company's March 2005 private offering.

On March 8, 2005, the Company sold 8,754,962 shares of its Common Stock to Credit Suisse First Boston LLC (the "Initial Purchaser"). The Company issued these shares of Common Stock to the Initial Purchaser in reliance on the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act. The Initial Purchaser paid the Company a purchase price of \$13.95 per share, for total proceeds to the Company of \$122,131,719.90. The Initial Purchaser resold all of these shares of Common Stock to (i) qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act and (ii) investors outside the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act. The offering price per share of Common Stock to qualified institutional buyers under Rule 144A and non-United States persons under Regulation S was \$15.00 per share for gross proceeds of \$131,324,430 and the Initial Purchaser's discount and commission was \$9,192,710.10.

On March 8, 2005, the Company sold 6,578,372 shares of its Common Stock in a concurrent private placement to 207 accredited investors (as defined in Rule 501 under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 506 of Regulation D under

## **Table of Contents**

the Securities Act, with the Initial Purchaser acting as placement agent. The Initial Purchaser received a placement fee of \$1.05 per share with respect to 5,221,206 of these shares of Common Stock. No placement fee was paid with respect to 1,357,166 of these shares. The total proceeds to the Company from the private placement of these shares was \$93,193,313.70 and total placement fees paid to the placement agents was \$5,482,266.30.

On March 8, 2005, the Company granted a total of 345,000 restricted shares of Common Stock to Resource Capital Manager, Inc., as manager of the Company (the *Manager*), pursuant to the 2005 Stock Incentive Plan of the Company (the *Incentive Plan*). Additionally, on each of March 8, 2005 and March 8, 2006 the Company granted, in the aggregate, 4,000 restricted shares of Common Stock and 4,224 restricted shares of Common Stock, respectively, to the Company's non-employee directors pursuant to the Incentive Plan. Such grants were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. For a more detailed description of the Incentive Plan, see *Management 2005 Stock Incentive Plan* in the prospectus which is a part of this registration statement.

On March 8, 2005, the Company granted options to acquire 651,666 shares of Common Stock to Resource Capital Manager, Inc., as manager of the Company, pursuant to the Incentive Plan. Such grant was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

Pursuant to the management agreement among the Company, the Manager and RAI, the Company paid the Manager 14,076 shares of Common Stock as of September 30, 2006. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2005 and the nine months ended September 30, 2006. Such grants were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. For a more detailed description of the management agreement, see *Management Management Agreement* in the prospectus which is a part of this registration statement.

### **Item 34. 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 or deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains a provision which limits the liability of our directors and officers to the maximum extent permitted by Maryland law.

Our charter also authorizes our company, to the maximum extent permitted by Maryland law, to obligate our company to indemnify any present or former director or officer or any individual who, while a director or officer of our company and at the request of our company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, 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 or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding.

Our bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while a director or officer of our company and at the request of our company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee 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 such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. Our charter and bylaws also permit our company to indemnify and advance expenses to any individual who served a predecessor of our company in any of the capacities described above and any employee or agent of our company or a predecessor of our company.

**Table of Contents**

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, 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 such capacity, or in the defense of an issue, claim or matter in any such proceeding. Maryland law permits a 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 are threatened to be made, a party by reason of their service in those or other capacities 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; or

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

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. 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 corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

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

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.

**Item 35. Treatment of Proceeds from Stock Being Registered.**

None of the proceeds will be credited to an account other than the appropriate capital share account.

**Item 36. Financial Statements and Exhibits.**

(a) *Financial Statements.* See page F-1 for an index of the financial statements included in the registration statement.

(b) *Exhibits.* The following exhibits are filed as part of this registration statement on Form S-11:

<b>Exhibit</b>	<b>Description of Document</b>
1.1	Form of Underwriting Agreement among Resource Capital Corp. and the underwriters named therein.
3.1 <sup>(1)</sup>	Amended and Restated Articles of Incorporation of Resource Capital Corp.
3.2 <sup>(1)</sup>	Amended and Restated Bylaws of Resource Capital Corp.
4.1 <sup>(1)</sup>	Form of Certificate for Common Stock for Resource Capital Corp.
4.2 <sup>(2)</sup>	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., as Trustee, dated May 25, 2006.

## Edgar Filing: Resource Capital Corp. - Form S-11/A

- 4.3<sup>(2)</sup> Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated May 25, 2006.
- 4.4<sup>(2)</sup> Junior Subordinated Note due 2036 in the principal amount of \$25,774,000, dated May 25, 2006.

II-3

**Table of Contents**

<b>Exhibit</b>	<b>Description of Document</b>
4.5 <sup>(3)</sup>	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., as Trustee, dated September 29, 2006.
4.6 <sup>(3)</sup>	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated September 29, 2006.
4.7 <sup>(3)</sup>	Junior Subordinated Note due 2036 in the principal amount of \$25,774,000, dated September 29, 2006.
5.1 <sup>(4)</sup>	Opinion of DLA Piper US LLP as to legality of the securities being issued
8.1 <sup>(4)</sup>	Opinion of Ledgewood as to certain U.S. federal income tax matters
10.1 <sup>(1)</sup>	Registration Rights Agreement among Resource Capital Corp. and Credit Suisse First Boston LLC for the benefit of certain holders of the common stock of Resource Capital Corp., dated as of March 8, 2005
10.2 <sup>(1)</sup>	Management Agreement between Resource Capital Corp., Resource Capital Manager, Inc. and Resource America, Inc. dated as of March 8, 2005
10.3 <sup>(1)</sup>	2005 Stock Incentive Plan
10.4 <sup>(1)</sup>	Form of Stock Award Agreement
10.5 <sup>(1)</sup>	Form of Stock Option Agreement
10.6 <sup>(1)</sup>	Form of Warrant to Purchase Common Stock
10.7 <sup>(2)</sup>	Junior Subordinated Note Purchase Agreement by and between Resource Capital Corp. and Resource Capital Trust I., as trustee, dated May 25, 2006.
10.8 <sup>(3)</sup>	Junior Subordinated Note Purchase Agreement by and between Resource Capital Corp. and RCC Trust II, dated September 29, 2006.
21.1 <sup>(4)</sup>	List of Subsidiaries of Resource Capital Corp.
23.1 <sup>(4)</sup>	Consent of DLA Piper US LLP (included in Exhibit 5.1)
23.2 <sup>(4)</sup>	Consent of Ledgewood (included in Exhibit 8.1)
23.3	Consent of Grant Thornton LLP
24.1 <sup>(4)</sup>	Power of Attorney (included on signature page)

- (1) Previously filed as an exhibit to the registrant's registration statement on Form S-11 (registration no. 333-126517).  
 (2) Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.  
 (3) Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.  
 (4) Previously filed as an exhibit to this registration statement.

**Item 37. Undertakings.**

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or 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 Securities 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

**Table of Contents**

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.

(i) The undersigned registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, as amended, 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 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, 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, as amended, the undersigned registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York on December 8, 2006.

**RESOURCE CAPITAL CORP.**

By: /s/ DAVID J. BRYANT  
**David J. Bryant**  
**Chief Financial Officer,**

**Chief Accounting Officer and Treasurer**

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

/s/ DAVID J. BRYANT

**David J. Bryant**

Chief Financial Officer, Chief

Accounting Officer and Treasurer

and as attorney-in-fact for:

Edward E. Cohen, Chairman and Director

Jonathan E. Cohen,

President, Chief Executive Officer and Director

Walter T. Beach, Director

Murray S. Levin, Director

December 8, 2006

**Table of Contents**

**Exhibit Index**

<b>Exhibit</b>	<b>Description of Document</b>
1.1	Form of Underwriting Agreement among Resource Capital Corp. and the underwriters named therein.
3.1 <sup>(1)</sup>	Amended and Restated Articles of Incorporation of Resource Capital Corp.
3.2 <sup>(1)</sup>	Amended and Restated Bylaws of Resource Capital Corp.
4.1 <sup>(1)</sup>	Form of Certificate for Common Stock for Resource Capital Corp.
4.2 <sup>(2)</sup>	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., as Trustee, dated May 25, 2006.
4.3 <sup>(2)</sup>	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated May 25, 2006.
4.4 <sup>(2)</sup>	Junior Subordinated Note due 2036 in the principal amount of \$25,774,000, dated May 25, 2006.
4.5 <sup>(3)</sup>	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., as Trustee, dated September 29, 2006.
4.6 <sup>(3)</sup>	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated September 29, 2006.
4.7 <sup>(3)</sup>	Junior Subordinated Note due 2036 in the principal amount of \$25,774,000, dated September 29, 2006.
5.1 <sup>(4)</sup>	Opinion of DLA Piper US LLP as to legality of the securities being issued
8.1 <sup>(4)</sup>	Opinion of Ledgewood as to certain U.S. federal income tax matters
10.1 <sup>(1)</sup>	Registration Rights Agreement among Resource Capital Corp. and Credit Suisse First Boston LLC for the benefit of certain holders of the common stock of Resource Capital Corp., dated as of March 8, 2005
10.2 <sup>(1)</sup>	Management Agreement between Resource Capital Corp., Resource Capital Manager, Inc. and Resource America, Inc. dated as of March 8, 2005
10.3 <sup>(1)</sup>	2005 Stock Incentive Plan
10.4 <sup>(1)</sup>	Form of Stock Award Agreement
10.5 <sup>(1)</sup>	Form of Stock Option Agreement
10.6 <sup>(1)</sup>	Form of Warrant to Purchase Common Stock
10.7 <sup>(2)</sup>	Junior Subordinated Note Purchase Agreement by and between Resource Capital Corp. and Resource Capital Trust I., as trustee, dated May 25, 2006.
10.8 <sup>(3)</sup>	Junior Subordinated Note Purchase Agreement by and between Resource Capital Corp. and RCC Trust II, dated September 29, 2006.
21.1 <sup>(4)</sup>	List of Subsidiaries of Resource Capital Corp.
23.1 <sup>(4)</sup>	Consent of DLA Piper US LLP (included in Exhibit 5.1)
23.2 <sup>(4)</sup>	Consent of Ledgewood (included in Exhibit 8.1)
23.3	Consent of Grant Thornton LLP
24.1 <sup>(4)</sup>	Power of Attorney (included on signature page)

(1) Previously filed as an exhibit to the registrant's registration statement on Form S-11 (registration no. 333-126517).

(2) Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(3) Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

(4) Previously filed as an exhibit to this registration statement.