Resource Capital Corp.
Form 424B4
December 15, 2006
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P R O S P E C T U S

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.

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.

	Per share	Total
Public offering price	$ 16.5000	$ 99,000,000
Underwriting discount	$ 0.9075	$ 5,445,000
Proceeds to us (before expenses)	$ 15.5925	$ 93,555,000

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 December 20, 2006.

Citigroup Credit Suisse Friedman Billings Ramsey JPMorgan

The date of this prospectus is December 14, 2006

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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.

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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 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	**Principal investments**
Commercial real estate-related assets	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
	Commercial mortgage-backed securities, which we refer to as CMBS
Residential real estate-related assets	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
	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.

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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.

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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(1)	Weighted average coupon(1)
Commercial real estate-related assets				
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%
Residential real estate-related assets				
ABS-RMBS	346,988	347,078	22.52%	6.87%
Total residential real estate-related assets	346,988	347,078	22.52%	6.87%
Commercial finance assets				
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

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.

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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.

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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.

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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[(1)]	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[(2)]	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 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.

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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

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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.

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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.

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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

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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.

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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 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.

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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.

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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:

Fee	Summary description
Base management fee	Payable monthly in arrears in an amount equal to 1/12 of our equity, as defined in the management agreement, times 1.5%.
Incentive fee	Payable quarterly in an amount equal to the product of: 25% of the dollar amount by which 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, exceeds an amount equal to 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 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. 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. 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, 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.

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Fee	Summary description
Termination fee	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.

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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 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 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, 10th Floor, New York, New York 10019 and our phone number is (215) 546-5005. Our website is located at *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.

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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:

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(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.

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The Offering

Common stock offered by us	6,000,000 shares
Common stock to be outstanding after this offering	23,821,434 shares[(1)]
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 13, 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.

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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)
	(in thousands, except share and per share data)				
Consolidated Income Statement Data:					
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

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	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)
	(in thousands, except share and per share data)				
Consolidated Balance Sheet Data:					
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
Other Data:					
Dividends declared per common share	$ 1.06	$ 0.20	$ 0.86	$ 0.37	$ 0.20

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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

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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.

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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.

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

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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

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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 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.

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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

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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 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.

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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.

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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

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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

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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,

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.

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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.

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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 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

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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,

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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

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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 transferor 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 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.

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 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.

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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

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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

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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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Summary, Risk Factors, Distribution Policy, Business and elsewhere in this prospectus constitute forward-lookin 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 negati 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.

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USE OF PROCEEDS

The net proceeds from our sale of 6,000,000 shares of common stock in this offering will be approximately $93.0 million (or approximately $107.0 million if the underwriters exercise their over- allotment option in full), after deducting underwriting discounts and commissions of approximately $5.4 million (or approximately $6.3 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 14, 2006, were as follows:

Repurchase agreement counterparties	Amount outstanding	Borrowing rate	Original maturity
Credit Suisse Securities (USA) LLC and affiliates	$ 104,957,125	6.54%	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.

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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.

	As of September 30, 2006	
	Actual[1]	As adjusted
	(dollars in thousands)	
Debt:		
Repurchase agreements, including accrued interest of $1,012	$ 770,167	$ 677,212
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
Stockholders equity:		
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	340,883
Deferred equity compensation	(1,364)	(1,364)
Accumulated other comprehensive loss	(3,951)	(3,951)
Distributions in excess of earnings	(12,650)	(12,650)
Total stockholders equity	229,987	322,942
Total capitalization	$ 2,363,484	$ 2,363,484

(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 2005 Stock Incentive Plan.

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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.

	High	Low	Distributions declared[1]
October 1, 2006 to December 14, 2006	$ 17.73	$ 15.09	$ 0.38[2]
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. Does not include a special distribution of $0.05 per share declared on December 8, 2006 and payable on January 4, 2007 to stockholders of record on December 15, 2006. See Distribution Policy for a discussion of the special distribution. Purchasers in this offering will not participate in either the quarterly distribution or the special distribution.

As of December 13, 2006, we had 17,821,434 shares of our common stock outstanding which were held by 39 holders of record.

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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.

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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)
	(in thousands, except share and per share data)				
Consolidated Income Statement Data:					
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

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	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)
	(in thousands, except share and per share data)				
Consolidated Balance Sheet Data:					
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
Other Data:					
Dividends declared per common share	$ 1.06	$ 0.20	$ 0.86	$ 0.37	$ 0.20

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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.

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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.

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

			Weighted average			
			Rate	**Balance**	**Rate**	**Balance**
	Three months ended September 30,		**Three months ended September 30,**		**Three months ended September 30,**	
	2006(1)	**2005(1)**	**2006(1)**	**2006**	**2005(1)**	**2005**
Interest income:						
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				
Total interest income	$ 39,148	$ 21,596				

	Nine months ended	**Period ended**	Weighted average			
			Rate	**Balance**	**Rate**	**Balance**
			Nine months ended September 30,		**Period ended September 30,**	
	September 30,					
	2006(1)	**2005(1)**	**2006(1)**	**2006**	**2005(1)**	**2005**
Interest income:						
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

Total interest income from loans	46,625	6,322					
Interest income other:							
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					
Total interest income other	8,179	1,627					
Total interest income	$ 103,477	$ 34,690					

(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.

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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.

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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.

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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 September 30,		Weighted average Rate Three months ended September 30,	Weighted average Balance Three months ended September 30,	Weighted average Rate Three months ended September 30,	Weighted average Balance Three months ended September 30,
	2006[1]	2005[1]	2006[1]	2006	2005[1]	2005
Interest expense:						
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
Total interest expense	$ 30,855	$ 15,595				

	Nine months ended September 30,	Period ended September 30,	Weighted average Rate Nine months ended September 30,	Weighted average Balance Nine months ended September 30,	Weighted average Rate Period ended September 30,	Weighted average Balance Period ended September 30,
	2006[1]	2005[1]	2006[1]	2006	2005[1]	2005
Interest expense:						
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
Total interest expense	$ 78,576	$ 23,736				

(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.

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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

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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 6.17% 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

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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 September 30,	Period ended September 30,
	2006	2005	2006	2005
Non-investment expenses:				
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
Total non-investment expenses	$ 2,764	$ 2,417	$ 7,625	$ 5,124

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.

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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.

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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 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**
***Floating rate*:**						
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%
Total floating rate	$ 1,291,639	99.80%	$ 1,290,920	99.74%	$ (719)	-0.06%
***Fixed rate*:**						
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%
Total fixed rate	$ 251,266	97.66%	$ 250,412	97.33%	$ (854)	-0.33%
Grand total	$ 1,542,905	99.44%	$ 1,541,332	99.34%	$ (1,573)	-0.10%

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December 31, 2005		Amortized cost	Dollar price		Estimated fair value	Dollar price		Estimated fair value less amortized cost	Dollar price
***Floating rate*:**									
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%
Total floating rate	$	926,245	99.77%	$	919,184	98.97%	$	(7,061)	-0.76%
***Hybrid rate*:**									
Agency ABS-RMBS	$	1,014,575	100.06%	$	1,001,670	98.79%	$	(12,905)	-1.27%
Total hybrid rate	$	1,014,575	100.06%	$	1,001,670	98.79%	$	(12,905)	-1.27%
***Fixed rate*:**									
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%
Total fixed rate	$	65,404	99.42%	$	64,453	97.97%	$	(951)	-1.45%
Grand total	$	2,006,224	99.90%	$	1,985,307	98.86%	$	(20,917)	-1.04%

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		
	ABS-RMBS	Agency ABS-RMBS	ABS-RMBS	Total 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%

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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**
Moody s ratings category:				
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%
S&P ratings category:				
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(1)	636		633	
Weighted average original LTV(1)	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.

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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**
Moody s ratings category:				
Baa1 through Baa3	$ 27,954	98.75%	$ 27,970	98.66%
Total	$ 27,954	98.75%	$ 27,970	98.66%
S&P ratings category:				
BBB+ through BBB-	$ 12,193	99.07%	$ 12,225	98.98%
No rating provided	15,761	98.51%	15,745	98.41%
Total	$ 27,954	98.75%	$ 27,970	98.66%
Weighted average rating factor	346		346	

Other Asset-Backed Securities

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**
Moody s ratings category:				
Baa1 through Baa3	$ 20,674	99.89%	$ 22,045	99.89%
Ba1 through Ba3	778	81.89%		99.89%
Total	$ 21,452	99.10%	$ 22,045	99.89%
S&P ratings category:				
BBB+ through BBB-	$ 19,691	99.02%	$ 19,091	99.87%
No rating provided	1,761	100.00%	2,954	100.00%
Total	$ 21,452	99.10%	$ 22,045	99.89%
Weighted average rating factor	407		398	

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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
***September 30, 2006*:**				
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
Total	30	$ 439,655		
***December 31, 2005*:**				
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
Total	12	$ 171,088		

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.

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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
Moody s ratings category:				
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%		%
Total	$ 614,947	100.16%	$ 398,785	100.23%
S&P ratings category:				
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%		%
Total	$ 614,947	100.16%	$ 398,785	100.23%
Weighted average rating factor	2,143		2,089	

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
Total	$ 91,909	$ 23,317

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.

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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 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.

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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

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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.

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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 earning 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

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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;

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;

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- 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;

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;

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- 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:

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

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- 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 with 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.

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.

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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.

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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.

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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.

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.

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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)				
		Payments due by period			
	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
Repurchase agreements[1]	$ 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[2]	3,698	3,698			
Total	$ 2,119,244	$ 773,865	$	$ 87,080	$ 1,258,299

(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.

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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.

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 or 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.

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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

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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)

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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.

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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.

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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.

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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
Other ABS(1)			
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%
Repurchase and secured term facility(2)			
Fair value	$ 857,247	$ 857,247	$ 857,247
Change in fair value	$	$	$
Change as a percent of fair value			
Hedging instruments			
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
Hybrid adjustable-rate agency ABS-RMBS and other ABS(1)			
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%
Repurchase and warehouse agreements(2)			
Fair value	$ 1,131,238	$ 1,131,238	$ 1,131,238
Change in fair value	$	$	$
Change as a percent of fair value			
Hedging instruments			
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,

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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.

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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:

Asset class	Principal investments
Commercial real estate-related assets	Whole loans
	A notes
	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
	CMBS
Residential real estate-related assets	ABS-RMBS
Commercial finance assets	Bank loans
	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 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.

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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.

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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(1)	Weighted average coupon(1)
Commercial real estate-related assets				
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%
Residential real estate-related assets				
ABS-RMBS	346,988	347,078	22.52%	6.87%
Total residential real estate-related assets	346,988	347,078	22.52%	6.87%
Commercial finance assets				
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(1)	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(2)	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

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

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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.

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.

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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

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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 302 basis points and mature between October 2009 and September 2016. The fixed rate loans bear interest at a fixed rate between 5.78% 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
Moody s ratings category:		
Baa1 through Baa3	$ 27,954	98.75%
Total	$ 27,954	98.75%
S&P ratings category:		
BBB+ through BBB-	$ 12,193	99.07%
No rating provided	$ 15,761	98.51%
Total	$ 27,954	98.75%
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 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
Moody s ratings category:		
A1 through A3	$ 42,273	100.20%
Baa1 through Baa3	279,022	99.86%
Ba1 through Ba3	25,693	91.22%
Total	$ 346,988	99.21%
S&P ratings category:		
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%
Total	$ 346,988	99.21%
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.

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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
Moody s ratings category:		
Ba1 through Ba3	$ 195,373	100.09%
B1 through B3	408,101	100.20%
Caa1 through Caa3	11,473	100.01%
Total	$ 614,947	100.16%
S&P ratings category:		
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%
Total	$ 614,947	100.16%
Weighted average rating factor	2,143	

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
Moody s ratings category:		
Baa1 through Baa3	$ 20,674	99.89%
Ba1 through Ba3	778	81.89%
Total	$ 21,452	99.10%
S&P ratings category:		
BBB+ through BBB-	$ 19,691	99.02%
No rating provided	1,761	100.00%
Total	$ 21,452	99.10%

Weighted average rating factor	407

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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.

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.

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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:

Name	**Position**
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

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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.

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 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.

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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.

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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;

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- 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.

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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:

Product	Function	Agency ABS-RMBS	ABS-RMBS	CMBS/ Whole loans/A and B notes/ mezzanine loans	Bank loans	ABS/ CDO	Trust preferred securities	Equipment leases and notes
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					