

PMC COMMERCIAL TRUST /TX  
Form DEF 14A  
April 27, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14a INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

**PMC Commercial Trust**

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other Than the Registrant)

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Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**PMC COMMERCIAL TRUST**

17950 Preston Road, Suite 600

Dallas, Texas 75252

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of PMC Commercial Trust (the Meeting), to be held at 17950 Preston Road, Suite 270, Dallas, Texas, on Friday, June 8, 2012, at 9:00 a.m., Central Daylight Time. The purpose of the Meeting is as follows:

- 1: To elect the five trust managers nominated in the proxy statement to serve for a one-year term, and until their successors are elected and qualified.
- 2: To approve, by non-binding vote, executive compensation.
- 3: To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.
- 4: To transact such other business as may properly come before the Meeting and any postponement(s) or adjournment(s) thereof.

The Board of Trust Managers has fixed the close of business on April 16, 2012 as the record date for determining shareholders entitled to notice of and to vote at the Meeting. A form of proxy card and a copy of our annual report to shareholders for the fiscal year ended December 31, 2011 are enclosed with this notice of Meeting and proxy statement.

**Your proxy vote is important to us and our business.** I encourage you to complete, date, sign and return the accompanying proxy whether or not you plan to attend the Meeting. If you plan to attend the Meeting to vote in person and your shares are in the name of a broker or bank, you must secure a proxy from the broker or bank assigning voting rights to you for your shares.

Sincerely,

/s/ Lance B. Rosemore  
Lance B. Rosemore

*Chief Executive Officer and President*

April 27, 2012

**Important Notice Regarding the Availability of Proxy Materials for our**

**Annual Meeting of Shareholders to be Held on June 8, 2012.**

**Our proxy statement is available on our website at [www.pmctrust.com/proxy](http://www.pmctrust.com/proxy) and our annual report to shareholders for the year ended December 31, 2011 is available on our website at [www.pmctrust.com/annualreport](http://www.pmctrust.com/annualreport).**

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**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**Friday, June 8, 2012**

PMC Commercial Trust

17950 Preston Road, Suite 600

Dallas, Texas 75252

The Board of Trust Managers (the Board) of PMC Commercial Trust (the Company, us, we or our) is soliciting proxies to be used at the 2012 Annual Meeting of Shareholders to be held at 17950 Preston Road, Suite 270, Dallas, Texas 75252, on Friday, June 8, 2012, at 9:00 a.m., Central Daylight Time (the Meeting). This proxy statement, accompanying proxy and annual report to shareholders for the fiscal year ended December 31, 2011 are first being mailed to shareholders on or about April 27, 2012. Although the annual report is being mailed to shareholders with this proxy statement, it does not constitute part of this proxy statement.

Only shareholders of record as of the close of business on April 16, 2012 are entitled to notice of and to vote at the Meeting. As of April 16, 2012, we had 10,584,554 common shares of beneficial interest (the Shares) outstanding. Each holder of record of Shares on the record date is entitled to one vote on each matter properly brought before the Meeting for each Share held.

**QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING**

**1. What is a proxy?**

It is your legal designation of another person to vote the Shares you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. We have designated two of our officers, Jan F. Salit and Barry N. Berlin, as proxies for the Meeting.

**2. What is a proxy statement?**

It is a document that Securities and Exchange Commission (SEC) regulations require us to give you when we ask you to sign a proxy card designating Jan F. Salit and Barry N. Berlin as proxies to vote on your behalf.

**3. What is the difference between a shareholder of record and shareholder who holds Shares in street name?**

If your Shares are registered in your name, you are a shareholder of record. If your Shares are held in the name of your broker or bank, your Shares are held in street name and you are a beneficial owner.

**4. How do I attend the Meeting? What do I need to bring?**

If you are a shareholder of record, you will need to bring a photo ID with you to the Meeting.



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If you own Shares in street name, bring your most recent brokerage statement with you to the Meeting. We can use your statement to verify your ownership of Shares and admit you to the Meeting; however, you will not be able to vote your Shares at the Meeting without a legal proxy, as described in question 5. You will also need to bring a photo ID.

Please note that cameras, sound or video recording equipment, cellular telephones or other similar equipment, electronic devices, large bags, briefcases or packages will not be allowed at the Meeting.

### **5. How can I vote at the Meeting if I own Shares in street name?**

You will need to ask your broker or bank for a legal proxy. You will need to bring the legal proxy with you to the Meeting. You will not be able to vote your Shares at the Meeting without a legal proxy.

Please note that if you request a legal proxy, any previously executed proxy will be revoked, and your vote will not be counted unless you appear at the Meeting and vote in person or legally appoint another proxy to vote on your behalf.

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If you do not receive the legal proxy in time, you can follow the procedures described in question 4 to attend the Meeting. However, you will not be able to vote your Shares at the Meeting.

**6. What Shares are included on the proxy card?**

If you are a shareholder of record on April 16, 2012, you will receive one proxy card for all the Shares you hold in each single account, regardless of whether you hold them:

In certificate form, or

In book entry form.

If you receive more than one proxy card it generally means you hold Shares registered in more than one account. Please sign and return all of the proxy cards you receive to ensure that your Shares are voted.

**7. What constitutes a quorum?**

The presence, in person or represented by proxy, of a majority of the Shares (at least 5,292,278) entitled to vote at the Meeting is necessary to constitute a quorum at the Meeting. However, if a quorum is not present at the Meeting, the chairman of the Meeting or the shareholders entitled to vote at the Meeting, present in person or represented by proxy, have the power to adjourn the Meeting until a quorum is present or represented.

**8. What different methods can I use to vote?**

By Written Proxy. All shareholders can vote by written proxy card received with this proxy statement.

In Person. All shareholders of record may vote in person at the Meeting. Street name holders may vote in person at the Meeting if they have a legal proxy, as described in question 5.

**9. What is the record date and what does it mean?**

The record date for the meeting is April 16, 2012. The record date is established by the Board as allowed by the Texas Business Organizations Code ( Texas Law ). Owners of record of Shares at the close of business on the record date are entitled to:

receive notice of the Meeting; and

vote at the Meeting and any adjournments or postponements of the Meeting.

**10. What can I do if I change my mind after I return my proxy card?**

Returning your proxy card will in no way limit your right to vote at the Meeting if you later decide to attend in person.

Shareholders can revoke a proxy prior to the completion of voting at the Meeting by:

giving written notice of revocation to the Corporate Secretary of the Company;

delivering a later-dated proxy; or

voting in person at the Meeting (unless you are a street name holder without a legal proxy, as described in question 5).

**11. Are votes confidential? Who counts the votes?**

We will continue our long-standing practice of holding the votes of all shareholders in confidence from trust managers, officers and employees except:

as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company;

in case of a contested proxy solicitation;

if a shareholder makes a written comment on the proxy card or otherwise communicates his or her vote to management; or

to allow inspectors of election to certify the results of the vote.

We will continue, as we have for many years, to retain an independent tabulator to receive and tabulate the proxies and inspectors of election, Jan F. Salit and Barry N. Berlin, to certify results.

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**12. What are my voting choices when voting for trust manager nominees, and what vote is needed to elect trust managers?**

In the vote on the election of five trust manager nominees to serve until the 2013 Annual Meeting of Shareholders, until their successor has been duly elected and qualified, or until the earliest of their death, resignation or retirement, shareholders may;

vote in favor of all nominees;

vote in favor of specific nominees;

vote against all nominees;

vote against specific nominees;

abstain from voting with respect to all nominees; or

abstain from voting with respect to specific nominees.

The affirmative vote of two-thirds of the votes cast at the Meeting is required to elect trust managers.

The Board recommends a vote FOR each of the nominees.

**13. What are my voting choices when voting on the ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm, and what vote is needed to ratify their appointment?**

In the vote on the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm, shareholders of record may:

vote in favor of the ratification;

vote against the ratification; or

abstain from voting on the ratification.

The affirmative vote of a majority of the votes cast at the Meeting is required to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

The Board recommends a vote FOR the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

**14. What are my choices when voting, on an advisory basis, on the compensation of our named executive officers?**

In the advisory vote on the compensation of our named executive officers, shareholders of record may:

vote in favor of the compensation of our named executive officers;

vote against the compensation of our named executive officers; or

abstain from voting on the executive compensation proposal.

The affirmative vote of a majority of the votes cast at the Meeting is required to approve the executive compensation proposal. Even though your vote is advisory and therefore will not be binding on the Company, the Board will review and consider the voting results when making future decisions regarding executive compensation.

The Board recommends a vote FOR the executive compensation proposal.

**15. What if I do not specify a choice for a matter when returning a proxy?**

Shareholders should specify their choice for each matter on the enclosed proxy card. If no specific instructions are given, proxies that are signed and returned will be voted:

FOR the election of all trust manager nominees;

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FOR the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm; and

FOR the advisory vote on the executive compensation proposal.

**16. How are abstentions and broker non-votes counted?**

If on the record date your shares were held through a broker, bank or other agent and not in your name, then you are a beneficial owner. If you are a beneficial owner, your shares are held in street name, as is the case for most of the Company's shareholders. As a beneficial owner, you should have received a form with the voting instructions from the organization holding your account, rather than from the Company, and you have the right to direct how the shares in your account are to be voted. Please complete and mail the voting form as instructed to ensure your vote is counted. Alternatively, you may vote by telephone or over the Internet if permitted by your bank, broker or other agent by following the instructions provided in the Notice of Availability of Proxy Materials or voting instruction form. As a beneficial owner, you are also invited to attend the annual meeting. However, since you are not a shareholder of record, you may not vote your shares in person at the annual meeting unless you request and obtain a valid proxy from your bank, broker or other agent. Follow the instructions from your broker, bank or other agent included with the proxy materials, or contact your bank, broker or other agent to request such form of proxy.

If you are a beneficial owner and the organization holding your account does not receive instructions from you as to how to vote those shares, under the rules of the New York Stock Exchange (the NYSE), that organization may exercise discretionary authority to vote on routine proposals (such as the proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm) but may not vote on non-routine proposals (such as the election of trust managers and the advisory vote on executive compensation). As a beneficial owner, you will not be deemed to have voted on such non-routine proposals. The shares which cannot be voted by banks, brokers or other agents on non-routine matters are called broker non-votes. Broker non-votes will be deemed present at the annual meeting for purposes of determining whether a quorum exists for the annual meeting. Broker non-votes will make a quorum more readily obtainable, but will not be counted as votes cast. Abstentions will be counted as Shares that are present and entitled to vote for the purpose of determining the presence of a quorum and will be treated as present and a vote against any matter described herein.

**17. Does the Company have a policy regarding trust managers' attendance at the Annual Meeting of Shareholders?**

The Company does not have a policy regarding trust managers' attendance at Annual Meetings of Shareholders. All of the trust managers attended the 2011 Annual Meeting of Shareholders.

**18. Can I access the Notice of Annual Meeting, Proxy Statement and Annual Report on the Internet?**

The Notice of Annual Meeting and Proxy Statement are available on our website at [www.pmctrust.com/proxy](http://www.pmctrust.com/proxy) and our Annual Report for the year ended December 31, 2011 is available at [www.pmctrust.com/annualreport](http://www.pmctrust.com/annualreport).

**19. How are proxies solicited and what is the cost?**

We will bear all expenses incurred in connection with the solicitation of proxies. We have not engaged any solicitor to assist with the solicitation of proxies. In accordance with SEC rules, we will reimburse brokers, fiduciaries and custodians for their costs in forwarding proxy materials to the beneficial owners of Shares.

Our trust managers, officers and employees may solicit proxies by mail, telephone and personal contact. They will not receive any additional compensation for these activities.

**IMPORTANT: If your shares are held in the name of a brokerage firm, bank, nominee or other institution, you should provide instructions to your broker, bank, nominee or other institution on how to vote your shares. Please contact the person responsible for your account and give instructions for a proxy to be completed for your shares.**



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**GOVERNANCE OF THE COMPANY**

**Board of Trust Managers**

Pursuant to our Declaration of Trust and our Bylaws, our business, property and affairs are managed under the direction of our Board. Members of the Board are kept informed of the Company's business through discussions with the Chairman of the Board and executive officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. Board members have complete access to the Company's management team and the independent registered public accounting firm. The Board and each of the standing committees—Audit, Compensation and Nominating and Corporate Governance—also have authority to retain, at the Company's expense, outside counsel, consultants or other advisors in the performance of their duties. The Company's Corporate Governance Guidelines require that a majority of the Board be independent within the meaning of standards established by the stock exchange on which the Company's Shares are traded. The Company's Shares are currently traded on the NYSE Amex.

**Board Leadership Structure; Board Role in Risk Oversight**

**Leadership Structure.** Our Board does not have a formal policy regarding the leadership structure of the Company but instead believes that the leadership structure of a company may be determined based on a number of different factors and circumstances including, the company's position, history, size, culture, board size and composition. Since the Company's formation in 1993, Mr. Lance B. Rosemore has served as our Chief Executive Officer and as our Chairman of the Board since June 2008. At this time, our Board believes that Mr. Rosemore's combined role as Chief Executive Officer and the Chairman of our Board enables the Company to benefit from Mr. Rosemore's significant institutional and industry knowledge and experience while at the same time promoting unified leadership and direction for our Board and executive management without duplication of effort and cost.

Given our history, position, Board composition and the relatively small size of our company and management team, at this time, our Board believes the Company and its shareholders are best served by our current leadership structure. Our Board believes that it is able to provide effective independent oversight of the Company's business and affairs, including risks facing the Company, through the leadership of our lead independent trust manager, the independent committees of our Board and the other corporate governance structures and processes the Company has in place.

We have a lead independent trust manager, Mr. Nathan G. Cohen, who plays an active role on our Board and is vested with significant responsibilities that an independent chairman of the board would otherwise perform. These responsibilities include, without limitation:

ability to call meetings or executive sessions of the Board;

presiding at meetings of the Board at which the Chairman is not present;

calling, developing the agenda for and presiding over executive sessions of the independent trust managers, and taking the lead role in communicating any feedback to the Chairman, as appropriate;

serving as principal liaison between the independent trust managers and the Chairman;

facilitating communication between the independent trust managers and management;

communicating with trust managers between meetings when appropriate;

consulting with the Chairman regarding information, agenda and schedules of the meetings of the Board;



being available, when necessary or appropriate, for consultation and direct communication with shareholders and other external constituencies;

serving as a contact for shareholders who wish to communicate with the Board other than through the Chairman; and

oversight of our Sarbanes-Oxley director of compliance.

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Four of our five currently serving trust managers are non-management trust managers, and three of these trust managers are independent under the NYSE Amex listing standards. All of our trust managers are free to call a meeting or executive session of our Board, suggest the inclusion of items on the agenda for meetings of our Board or raise subjects that are not on the agenda for that meeting. In addition, our Board and each committee have complete and open access to any member of management and the authority to retain independent legal, financial and other advisors as they deem appropriate without consulting or obtaining the approval of any member of management. Our Board also holds executive sessions of only independent trust managers in order to promote discussion among the independent trust managers and assure independent oversight of management. Our lead independent trust manager presides over these executive sessions.

Moreover, our Board has three standing committees: Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, all of which are comprised entirely of independent trust managers and also perform oversight functions independent of management. Among various other responsibilities set forth in committee charters, (i) the Compensation Committee oversees the annual performance evaluation of the Company's Chairman and Chief Executive Officer and other executive officers, (ii) the Nominating Committee monitors the size and composition of the Board and its committees and adopts criteria for recommending candidates for election or re-election to the Board and its committees and (iii) the Audit Committee oversees the accounting and financial reporting processes as well as legal, compliance and risk management matters. The chair of each of these committees is responsible for directing the work of the committee in fulfilling these responsibilities.

The Board, through the Nominating and Governance Committee, annually evaluates the Board leadership structure in light of the Company's changing requirements and circumstances to ensure that it remains the most appropriate structure for the Company and its shareholders. At this time, the Company continues to believe its current leadership structure consisting of a Chairman who also serves as Chief Executive Officer, a lead independent trust manager and three standing Board committees separately chaired by and comprised solely of independent members of our Board remains the most appropriate leadership structure for the Company and its shareholders.

**Risk Oversight.** Companies are exposed to a variety of risks. The primary risks that we are exposed to are liquidity risk, real estate risk and interest rate risk. Our entire Board oversees risk management, however, the Audit Committee exercises primary responsibility for overseeing the Company's risk management control.

Our Board exercises its risk oversight function through (i) the review and discussion of reports to the Board and its committees on topics relating to the risks that the Company faces, including, among others, market conditions, liquidity availability, delinquency trends, foreclosure activity, compliance with debt covenants, access to debt and equity capital markets, existing and potential legal claims and various other matters relating to the Company's business and financial condition, (ii) the required approval by the Board (or a committee thereof) of significant transactions and other decisions, including, among others, material acquisitions and dispositions of properties and new credit facilities, (iii) the direct oversight of specific areas of the Company's business by the Compensation, Audit and Nominating and Corporate Governance Committees and (iv) regular reports from the Company's auditors and other outside consultants regarding various areas of potential risk. The entire Board also regularly discusses the identified risks the Company faces and the implementation of strategies to minimize such risks. The Board may also refer a specific risk to one of the Board's committees for particular oversight if the risk falls within the committee's specific area of responsibility or oversight. Examples include:

the Audit Committee reviews the financial and internal control over financial reporting risks; and

the Compensation Committee considers the primary risks associated with the Company's compensation programs to make sure such programs do not encourage excessive risk taking.

The Board also relies on management to bring significant matters to its attention. The Company has a risk management program overseen by Jan F. Salit, the Company's Chief Operating Officer, who reports directly to the Board. Material operating and other risks are identified and prioritized by management and reported to the Board for oversight of the risk.

The Board believes that the Company's current leadership structure, including the independent committee oversight function and the open access of the Board to the Company's Chief Operating Officer, Chief Financial Officer and other officers as the Board determines is appropriate, supports the oversight role of the Board in the Company's risk management.

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### **Statement on Corporate Governance**

The Company is dedicated to establishing and maintaining high standards of corporate governance. The Board has implemented many corporate governance measures designed to serve the long-term interests of our shareholders and further align the interests of trust managers and management with the Company's shareholders.

**Executive Sessions.** Pursuant to the Company's Corporate Governance Guidelines, the independent trust managers meet in separate executive sessions at least three times a year. The trust managers may invite the Chief Executive Officer or others, as they deem appropriate, to attend a portion of these sessions.

**Contacting the Board.** The Board welcomes your questions and comments. If you would like to communicate directly with the Board, or if you have a concern related to the Company's business ethics or conduct, financial statements, accounting practices or internal controls, then you may submit your correspondence to the Secretary of the Company or you may call the Ethics Hotline at 1-800-292-4496. All communications will be forwarded to the chairman of our Audit Committee and/or the Assistant Secretary of the Company, as appropriate, provided that advertisements, solicitations for periodical or other subscriptions, and similar communications generally are not forwarded.

**Code of Business Conduct and Ethics.** The Board has adopted a Code of Business Conduct and Ethics that applies to all trust managers, officers and employees, including the Company's principal executive officer and principal financial and accounting officer and a Code of Ethical Conduct for Senior Financial Officers (collectively, the Codes of Conduct). The purposes of the Codes of Conduct are to:

promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by the Company; and

promote compliance with all applicable rules and regulations that apply to the Company and its officers and trust managers.

If the Board amends any provisions of either Code of Conduct that applies to the Company's Chief Executive Officer or senior financial officers or grants a waiver in favor of any such persons, the Company intends to satisfy its disclosure requirements by promptly publishing the text of the amendment or the specifics of the waiver on its website at [www.pmctrust.com](http://www.pmctrust.com).

The Company intends to continue to act promptly to incorporate not only the actual requirements of rules adopted with respect to corporate governance matters but also additional voluntary measures it deems appropriate. Charters for the Audit, Compensation and Nominating and Corporate Governance Committees and the Company's Corporate Governance Guidelines and Codes of Conduct may be viewed on the Company's website at [www.pmctrust.com](http://www.pmctrust.com) under the Corporate Governance section. In addition, the Company will mail copies of the Corporate Governance Guidelines to shareholders upon their written request.

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**BOARD OF TRUST MANAGERS**

**Meetings**

During the fiscal year ended December 31, 2011, the Board held four (4) general meetings, two (2) other meetings, and five (5) independent meetings. In addition, the independent members of the Board met from time to time on a non-compensated basis. Each of the trust managers attended all meetings held by the Board and all meetings of each committee of the Board on which such trust manager served during the fiscal year ended December 31, 2011. The Company's policy is to encourage members of the Board to attend the meetings in person. All members of the Board attended the 2011 Annual Meeting of Shareholders.

In addition, during 2011 we received certain inquires expressing a preliminary interest in potential strategic transactions. The Board established a special committee of all of our independent trust managers to evaluate these inquires as well as other potential strategic alternatives that could enhance shareholder value. During 2011, eighteen (18) special committee meetings were held.

**Committees**

During the 2011 fiscal year, the Board had three standing committees: an Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

***Audit Committee.*** The Audit Committee currently consists of Mr. Nathan G. Cohen (chairman), Mr. Barry A. Imber and Mr. Irving Munn. The Audit Committee is comprised entirely of trust managers who meet the independence and financial literacy requirements of the NYSE Amex listing standards as well as the standards established under the Sarbanes-Oxley Act of 2002. In addition, the Board has determined that Mr. Imber qualifies as an audit committee financial expert as defined in SEC rules.

The Audit Committee's responsibilities include providing assistance to the Board in fulfilling its responsibilities with respect to oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent registered public accounting firm's qualifications, performance and independence, and the performance of the Company's internal audit function. In accordance with its charter, the Audit Committee has sole authority to appoint and replace the independent registered public accounting firm, who report directly to the Committee, approve the engagement fee of the independent registered public accounting firm and pre-approve the audit services and any permitted non-audit services they may provide to the Company. In addition, the Audit Committee reviews the scope of audits as well as the annual audit plan and evaluates matters relating to the audit and internal controls of the Company. The Audit Committee holds separate executive sessions, outside the presence of executive management, with the Company's independent registered public accounting firm. The Audit Committee held four regular quarterly meetings and one other meeting during the fiscal year ended December 31, 2011.

***Compensation Committee.*** The Compensation Committee currently consists of Mr. Irving Munn (chairman), Mr. Barry A. Imber and Mr. Nathan G. Cohen. The Compensation Committee is comprised entirely of trust managers who meet the independence requirements of the NYSE Amex listing standards. The Compensation Committee's responsibilities include:

establishing the Company's general compensation philosophy;

overseeing the Company's compensation programs and practices, including incentive and equity-based compensation plans;

reviewing and approving executive compensation plans in light of corporate goals and objectives;

evaluating the performance of the Chief Executive Officer in light of these criteria and establishing the Chief Executive Officer's compensation level based on such evaluation;

evaluating the performance of the other executive officers and their salaries, bonus and incentive and equity compensation;

administration of the Company's equity and benefit plans;

reviewing the adequacy of the Company's succession planning and organizational effectiveness; and

reviewing and making recommendations concerning proposals by management regarding compensation, bonuses, employment agreements and other benefits and policies with respect to such matters for employees of the Company.

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The Compensation Committee has the authority to retain counsel and other experts or consultants including the sole authority to select and retain a compensation consultant and to approve the fees and other retention terms of any consultant. The Compensation Committee met three times during the fiscal year ended December 31, 2011.

***Nominating and Corporate Governance Committee.*** The Nominating and Corporate Governance Committee (the Nominating Committee ) currently consists of Mr. Barry A. Imber (chairman), Mr. Nathan G. Cohen and Mr. Irving Munn. The Nominating Committee's duties include adopting criteria for recommending candidates for election or re-election to the Board and its committees and considering issues and making recommendations regarding the size and composition of the Board. The Nominating Committee will also consider nominees for trust manager suggested by shareholders in written submissions to the Company's Secretary in compliance with the nomination procedures set forth below. The Nominating Committee met one time during the fiscal year ended December 31, 2011.

### **Trust Manager Nomination Procedures**

***Trust Manager Qualifications.*** The Company's Nominating Committee has established policies for the desired attributes of the Board as a whole. The Board will ensure that a majority of its members are independent under NYSE Amex listing standards. Each trust manager generally may not serve as a member of more than six other public company boards. Each member of the Board must possess the individual qualities of integrity and accountability, informed judgment, financial literacy, high performance standards and must be committed to representing the long-term interests of the Company and its shareholders. In addition, trust managers must be committed to devoting the time and effort necessary to be responsible and productive members of the Board. The Board does not have a formal policy with regard to the consideration of diversity in identifying trust manager nominees. However, the Board values diversity, in its broadest sense, reflecting, but not limited to, profession, geography, gender, ethnicity, skills and experience and strives to nominate trust managers so that as a group, the Board will possess the appropriate talent, skills and expertise to oversee the Company's business.

***Identifying and Evaluating Nominees.*** The Nominating Committee periodically assesses the appropriate number of trust managers comprising the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. The Nominating Committee may consider those factors it deems appropriate in evaluating trust manager candidates including judgment, skill, diversity, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other board members and specialized knowledge or experience. Depending upon the current needs of the Board, certain factors may be weighed more or less heavily by the Nominating Committee. In considering candidates for the Board, the Nominating Committee evaluates the entirety of each candidate's credentials and, other than the eligibility requirements established by the Nominating Committee, does not have any specific minimum qualifications that must be met by a nominee. The Nominating Committee considers candidates for the Board from any reasonable source, including current board members, shareholders, professional search firms or other persons. The Nominating Committee does not evaluate candidates differently based on who has made the recommendation. The Nominating Committee has the authority under its charter to hire and pay a fee to consultants or search firms to assist in the process of identifying and evaluating candidates.

***Shareholder Nominees.*** The Nominating Committee will consider properly submitted shareholder nominees for election to the Board and will apply the same evaluation criteria in considering such nominees as it would to persons nominated under any other circumstances. Any shareholder nominations proposed for consideration by the Nominating Committee should include the nominee's name and sufficient biographical information to demonstrate that the nominee meets the qualification requirements for board service as set forth under Trust Manager Qualifications. The nominee's written consent to the nomination should also be included with the nomination submission, which should be addressed to: PMC Commercial Trust, 17950 Preston Road, Suite 600, Dallas, Texas 75252, Attn: Secretary.

In addition, the Company's bylaws permit nominations of trust managers at any annual meeting of shareholders by the Board or by a shareholder of record entitled to vote at the annual meeting. To make a nomination, the shareholder must provide written notice, along with any other additional information and materials reasonably required by the Company's bylaws, to the Secretary of the Company not less than 90 days and not more than 120 days, and prior to the anniversary of the preceding year's meeting. For the Company's annual meeting of shareholders in 2013, the Secretary must receive this notice on or after February 9, 2013, and on or before March 10, 2013. You may obtain a copy of the full text of the Company's bylaws provision by writing to the Company's Secretary at the address set forth above.

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### **Independence of Trust Managers**

Pursuant to the Company's Corporate Governance Guidelines, which require that a majority of our trust managers be independent within the meaning of the NYSE Amex corporate governance standards, the Board undertook a review of the independence of trust managers nominated for election at the Meeting. In making independence determinations, the Board observes all criteria for independence established by the SEC, the NYSE Amex and other governing laws and regulations. During this review, the Board considered transactions and relationships between each trust manager or any member of his or her immediate family and the Company, including (if applicable) those reported under Related Person Transactions. As provided in the Corporate Governance Guidelines, the purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the trust manager is independent.

As a result of this review, the Board affirmatively determined that all of the trust managers nominated for election at the Meeting are independent of the Company and its management with the exception of the management member of the Board, Mr. Lance B. Rosemore, and his sister, Dr. Martha Rosemore Morrow.

### **Qualifications of Trust Managers**

The Nominating and Corporate Governance Committee, in recommending the nominees for election as trust managers, considered the knowledge, experience, integrity and judgment of each nominee; the potential contribution of each nominee to the diversity of backgrounds, experience and competencies which the Board desires to have represented; and each nominee's ability to devote sufficient time and commitment to his or her duties as a trust manager. The Nominating and Corporate Governance Committee also took into account an understanding of the Company's business and the specific core competencies or technical expertise necessary to staff Board committees.

Since each nominee for trust manager is currently on our Board, the Nominating and Corporate Governance Committee also considered the significant contributions that each such individual has made to our Board and its committees during his or her tenure as a trust manager. The Nominating and Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group which can best serve the Company's business and financial interests and represent the shareholder interests through the exercise of sound judgment and diversity of experience. The Nominating and Corporate Governance Committee believes that each of the nominees possesses the knowledge, experience, integrity and judgment necessary to make independent decisions and a willingness to devote adequate time to Board duties. In addition, the Corporate Governance Committee believes that each of the nominees brings his or her own particular experiences and set of skills, giving the Board, as a whole, competence and experience to perform its obligations and responsibilities.

Additional biographical and other information concerning the trust managers can be found on page 12. Set forth below is a summary description of the experiences, qualifications, attributes and skills that led the Nominating and Corporate Governance Committee to the conclusion that each such person is qualified to serve as a trust manager.

**Nathan G. Cohen** has held various executive positions and responsibilities for over 30 years. Mr. Cohen is proficient in preparing and analyzing financial information and working with independent accountants. Mr. Cohen is experienced in finance and establishing and maintaining banking relationships and credit facilities. He has been a trust manager for 18 years and has extensive knowledge of the Company's business and operations. Mr. Cohen has also held numerous leadership positions with various civic organizations and has served on the boards of directors or executive committees and as president of several other professional and community organizations. Currently, he is also able to devote substantial time and focus to the matters requiring the attention of the lead independent trust manager and chairman of the special committee and in such capacity has committed significant time and effort to the oversight of the internal control and financial disclosure responsibilities of the Board and serving as primary liaison between management and the independent members of the Board.

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**Martha Rosemore Morrow** has owned and operated three professional optometric offices since 1975, which has given her extensive experience in executive and employee management and a variety of other skills necessary to own and operate a business. In addition, Dr. Morrow brings significant leadership skills from being a managing partner of a company that provides services to over 120 nursing homes. As a founder and board member of the Company's prior investment manager in 1979 and as a trust manager since May 1996, Dr. Morrow also brings extensive knowledge of the company's business and operations.

**Barry A. Imber** retired in 2010 from an accounting and advisory practice that he owned and operated since 1982. In addition, from 2007 to 2009, he performed trustee responsibilities including oversight of the operation of an auto dealership in South Florida. In addition to possessing the skills required to own and operate businesses, his qualifications include an extensive understanding of the preparation and analysis of financial statements. In addition, Mr. Imber has an extensive background in advising clients in the areas of accounting and financial services. Mr. Imber has also served as president and on the boards of directors of various professional and community organizations. He is a member of the American Institute of Certified Accountants and the Florida Institute of Certified Public Accountants. Mr. Imber's experience has led our Board to determine that he is an audit committee financial expert as that term is defined in SEC rules.

**Irving Munn** is a certified public accountant and has owned and operated a public accounting firm from 1990 until 2011. He is also a certified financial planner and has also owned and operated a financial planning and investment advisory firm. In addition to possessing the skills required to own and operate businesses, he also has expertise in the preparation and analysis of financial statements, strategic planning, profitability analysis and other elements of business management. Mr. Munn's advisory experience has given him knowledge regarding a variety of financial issues.

**Lance B. Rosemore**, our President and Chief Executive Officer, carries out the strategic plans and policies established by the Board and provides direction and leadership toward the achievement of our goals and objectives. Mr. Rosemore has served as our President and Chief Executive Officer since our inception in 1993. In addition, during his tenure, he also has had oversight responsibility for business development, human resources, quality assurance, regulatory compliance, corporate compliance and public relations. Mr. Rosemore's experience has given him in-depth knowledge of our operations and significant experience in financial and executive management, strategic planning, business integration and in dealing with the many regulatory aspects of our business.



**Table of Contents****PROPOSAL ONE ELECTION OF TRUST MANAGERS**

At the Meeting, five trust managers will be elected by the shareholders, each trust manager to serve for a one year term, until his or her successor has been duly elected and qualified, or until the earliest of his or her death, resignation or retirement. The affirmative vote of two-thirds of the votes cast at the Meeting is required to elect trust managers.

The persons named in the enclosed proxy will vote your Shares as you specify on the enclosed proxy form. If you return your properly executed proxy but fail to specify how you want your Shares voted, the Shares will be voted in favor of the nominees listed below. The Board has proposed the following nominees for election as trust managers at the Meeting. All nominees are currently serving as trust managers whose term will expire at the Meeting. No trust manager was selected for nomination at the 2012 Meeting as a result of any arrangement or understanding between that trust manager and any other person. The biographical description below for each nominee includes the specific experience, qualifications, attributes and skills that led to the conclusion by the Board that such person should serve as a trust manager of the Company.

			<i>Trust Manager</i>
<i>Nominee's Name</i>	<i>Age</i>	<i>Principal Occupation</i>	<i>Since</i>
Nathan G. Cohen	66	Mr. Cohen was the Chief Financial Officer of Institution Solutions LLC, a third person administrator, from June 2005 through December 2006. He remains President, since August 2001, of Consultants Unlimited, a management and financial consulting firm. From November 1984 to 2001, he was the Controller of Atco Rubber Products, Inc.	May 1994
Martha Rosemore Morrow	60	Dr. Morrow has practiced optometry for 38 years in Russellville, Alabama and is the President of the Alabama Optometric Association Foundation. Dr. Morrow is the immediate past president of the American Optometric Association Foundation and is currently a Board member of the Alabama Board of Optometry. Dr. Morrow was a director of PMC Capital, Inc. ( PMC Capital, our affiliate, from 1984 to February 2004. Dr. Morrow is the sister of Mr. Lance B. Rosemore.	May 1996
Barry A. Imber	65	Mr. Imber was a principal of Imber and Company, Certified Public Accountants, or its predecessor, from 1982 until August 2010 when he sold the accounting practice. He currently provides consulting services to Imber and Company. Mr. Imber was previously a trust manager of PMC Commercial from September 1993 to March 1995 and a director of PMC Capital from March 1995 to February 2004.	February 2004
Irving Munn	63	Mr. Munn has been the President of Munn & Morris Financial Advisors, Inc. since July 1999. He has been a registered representative with Raymond James Financial Services since 1997. Mr. Munn was a principal of Kaufman, Munn and Associates, P.C., a public accounting firm, from 1991 to November 2000 and President from 1993 to November 2000. He was the President of Irving Munn, P.C., a public accounting firm from November 2000 to December 2009. From January 2010, when Irving Munn, P.C. was merged into Gummer, Munn & Associates LLC, a public accounting firm ( Gummer Munn ), until September 2011 he was Vice President of Gummer Munn. Mr. Munn sold his interest in Gummer Munn during September 2011. Mr. Munn is a certified public accountant and certified financial planner.	September 1993
Lance B. Rosemore	63	Mr. Rosemore has been President, Chief Executive Officer and Secretary of PMC Commercial since June 1993 and Chairman of the Board of Trust Managers since June 2008. He was the Chief Executive Officer of PMC Capital from May 1992 to February 2004 and President of PMC Capital from 1990 to February 2004. Mr. Rosemore was a director and the Secretary of PMC Capital from 1983 to February 2004. Mr. Rosemore is the brother of Dr. Martha Rosemore Morrow.	June 1993

**The Board recommends that you vote FOR the election of each trust manager as set forth in Proposal One. Proxies solicited by the Board will be so voted unless you specify otherwise in your proxy.**

<sup>1</sup> The Company acquired PMC Capital pursuant to a merger in 2004.

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Other than Dr. Martha Rosemore Morrow being the sister of Lance Rosemore, there is no family relationship among any of the trust managers or executive officers. No executive officer was selected as a result of any arrangement or understanding between that executive officer and any other person. All executive officers are elected annually by, and serve at the discretion of, the Board. The following table sets forth the current executive officers of the Company.

<i>Name</i>	<i>Age</i>	<i>Current Title</i>
Lance B. Rosemore	63	President, Chief Executive Officer and Secretary
Barry N. Berlin	51	Executive Vice President and Chief Financial Officer
Jan F. Salit	61	Executive Vice President, Chief Operating Officer, Chief Investment Officer and Treasurer

**Business Experience**

For the business experience of Mr. Lance B. Rosemore, see Proposal One Election of Trust Managers.

**Barry N. Berlin** has been Executive Vice President of the Company since October 2008 and Chief Financial Officer of the Company since June 1993. Mr. Berlin was also Chief Financial Officer of PMC Capital from November 1992 to February 2004. From August 1986 to November 1992, he was an audit manager with Imber and Company, Certified Public Accountants. Mr. Berlin is a certified public accountant.

**Jan F. Salit** has been Chief Operating Officer and Treasurer of the Company since October 2008, Executive Vice President of the Company since June 1993, and Chief Investment Officer and Assistant Secretary since January 1994. He was also Executive Vice President of PMC Capital from May 1993 to February 2004 and Chief Investment Officer and Assistant Secretary of PMC Capital from March 1994 to February 2004. From 1979 to 1992, Mr. Salit was employed by Glenfed Financial Corporation and its predecessor company Armco Financial Corporation, a commercial finance company, holding various positions including Executive Vice President and Chief Financial Officer.

**Table of Contents****SECURITY OWNERSHIP OF TRUST MANAGERS AND EXECUTIVE OFFICERS**

The following table sets forth certain information regarding the beneficial ownership of our Shares as of April 16, 2012 by (1) each person known by us to own beneficially more than 5% of our outstanding Shares, (2) all current trust managers, (3) each current named executive officer and (4) all current trust managers and current executive officers as a group. Unless otherwise indicated, the Shares listed in the table are owned directly by the individual, or by both the individual and the individual's spouse. Except as otherwise noted, the individual had sole voting and investment power as to Shares shown or, the voting power is shared with the individual's spouse. All individuals set forth below have the same principal business address as the Company.

<i>Name</i>	<i>Common Shares Owned</i>	<i>Unexercised Options Exercisable</i>	<i>Common Shares Owned Beneficially</i>	<i>Percent of Common Shares Owned Beneficially</i>
Lance B. Rosemore <sup>(1)</sup>	213,939		213,939	2.0%
Barry N. Berlin <sup>(2)</sup>	34,377		34,377	*
Jan F. Salit <sup>(3)</sup>	31,003		31,003	*
Martha Rosemore Morrow <sup>(4)</sup>	359,127		359,127	3.4%
Barry A. Imber <sup>(5)</sup>	24,330		24,330	*
Nathan G. Cohen <sup>(6)</sup>	14,520		14,520	*
Irving Munn <sup>(7)</sup>	13,220		13,220	*
Trust Managers and Executive Officers as a group (7 persons)	690,516		690,516	6.5%

\* *Less than 1%.*

- (1) *Includes 164,098 Shares held jointly with his spouse, 8,987 Shares held in an IRA, 2,661 Shares held in an IRA by Mr. Rosemore's spouse and 4,235 restricted shares.*
- (2) *Includes 211 Shares held in the name of his child, 6,823 Shares held jointly with his spouse and 4,233 restricted shares.*
- (3) *Includes 612 Shares held in an IRA and 4,233 restricted shares.*
- (4) *Includes 77,495 Shares held in an IRA, 14,171 Shares held in a trust for the benefit of Dr. Morrow, 16,909 Shares held individually and 416 restricted shares. All remaining Shares are held by a partnership of which Dr. Morrow is the sole manager.*
- (5) *Includes 3,274 Shares held in an IRA for the benefit of his child, 1,202 Shares held in an IRA and 416 restricted shares.*
- (6) *Includes 1,700 Shares held in the name of his spouse and 416 restricted shares.*
- (7) *Includes 416 restricted shares.*

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**COMPENSATION DISCUSSION AND ANALYSIS**

**General**

The Compensation Committee's philosophy for compensating named executive officers is that a compensation system reflecting the Company's financial performance and shareholder return and encouraging ownership of our shares by the named executive officers will best align the interests of our named executive officers with the objectives of the Company and our shareholders. The Compensation Committee designed the Company's compensation program to meet our objective of rewarding performance measured by the creation of value for shareholders. In accordance with this philosophy, the Compensation Committee oversees the implementation of the compensation system designed to promote the Company's financial and operational success by attracting, motivating and assisting in the retention of key employees who demonstrate the highest levels of ability and talent by making a portion of an executive officer's compensation dependent upon the Company's and such executive's performance. The Company's executive compensation program includes the following compensation elements:

***Base salary.*** The salaries for the named executive officers are determined following an assessment of each executive's level of responsibility and experience, individual performance and contributions to the Company.

***Annual Cash Bonus Incentives.*** Annual incentives are determined by the performance of the executive, the executive's department, as applicable, and the financial performance of the Company as a whole based on profitability and balance sheet metrics and in relation to its peers.

***Long-Term Equity Incentives.*** Grants of restricted shares and/or share options are designed to motivate individuals to enhance the long-term profitability of the Company and the value of our shares. Awards of long-term incentive compensation require the executives to focus on the Company's long-term strategic growth and prospects, as well as to require the executives to share the risk of poor performance with our shareholders.

The Compensation Committee does not allocate a fixed percentage to each of these elements, but works with management to design an overall compensation structure that best serves our goals and appropriately motivates our executives to provide outstanding service to the Company. In addition, even though a portion of the executive's compensation is influenced by the Company's performance, the Compensation Committee has a general philosophy of providing some consistency in amounts of compensation provided by each of the three elements. This philosophy results in less significant increases or decreases in the amount of compensation paid from year-to-year and lessens the immediate effect of the Company's performance on executive compensation from year-to-year. In addition, the Compensation Committee assessed the reasonableness of the compensation package as a whole provided to each named executive officer, and considered whether the amount of total compensation is excessive given the Company's performance, current economic trends, and the compensation paid to executive officers of other mortgage and specialty finance public real estate investment trusts ( REITs ).

In 2011, the Compensation Committee evaluated the compensation of Messrs. Berlin and Salit, and administered all employee benefit plans established by the Company. In 2011, the Compensation Committee recommended and approved the base salary of Mr. Rosemore and recommended to the Board the compensation of Messrs. Berlin and Salit. The Board made all final compensation decisions regarding Messrs. Berlin and Salit, after receiving the Compensation Committee's recommendations.

**Compensation Policies and Practices and Risk Management**

Each year, the Compensation Committee conducts an analysis of the Company's compensation practices and policies to determine whether such policies and practices encourage imprudent risk taking by our executive officers and employees in an effort to maximize their compensation. In 2011, the Compensation Committee determined that the Company's compensation policies and practices do not encourage improper risk taking. In making such determination, the committee considered:

A portion of the Company's annual incentive compensation is equity-based long-term compensation that vests over a period of two years. This vesting period encourages officers to focus on sustaining our long-term performance. These grants are made annually, so officers always have unvested awards that could decrease significantly in value if our business is not managed

for the long-term.

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The Company does not offer significant short-term incentives to its officers or employees that might incentivize excessive risk taking at the expense of long-term company value. While commissions are paid to our business development officers as part of their compensation packages, payment of the full commission is contingent upon certain criteria being satisfied. Management believes that these commissions are also a smaller percentage of total compensation than commissions paid by certain other lenders.

As discussed above, the Compensation Committee's general philosophy is based on consistency, which results in less significant increases or decreases in the amount of compensation paid from year-to-year and lessens the immediate effect of the Company's performance on executive compensation from year-to-year, which encourages long-term sustained performance and does not encourage excessive risk taking motivated by short-term performance.

The Company's compensation policies and practices have been evaluated to make sure they do not encourage our officers and employees to take risks that are not in our long-term best interest. Based upon this review, the Company believes that its compensation policies and practices achieve a balance between compensating its officers and employees for their performance while minimizing excessive risk taking.

### **Identification of Named Executive Officers**

The Company's named executive officers for whom compensation information is disclosed in this proxy statement are Lance B. Rosemore, Barry N. Berlin and Jan F. Salit.

Lance B. Rosemore is the Chairman of the Board, Chief Executive Officer, President and Secretary. Mr. Rosemore is responsible for the overall direction and management of the Company. Mr. Rosemore's specific responsibilities include the development and execution of both tactical and strategic plans necessary to maintain profitability for the Company. Under Mr. Rosemore's management and direction, the Company continued its profitable operations during each quarter of 2011 earning \$3.6 million and re-established a focus on utilizing our Small Business Investment Company (SBIC) licenses.

Jan F. Salit is the Chief Operating Officer, Chief Investment Officer, Executive Vice President, Treasurer and Assistant Secretary. Mr. Salit's primary areas of responsibility include oversight of our day-to-day operations including the supervision of our credit, marketing, legal and human resources functions. Mr. Salit's responsibilities also include being the chairman of our Disclosure Committee and the liaison between our Sarbanes-Oxley director of compliance and the Audit Committee. In addition, along with Mr. Berlin (our Chief Financial Officer), Mr. Salit is responsible for obtaining leverage upon attractive terms. His specific major accomplishments include (1) his contributions to the Company earning \$3.6 million, (2) his contribution in obtaining the amendment to our credit facility from a secured to an unsecured facility, increasing availability under the facility and extending the maturity date from December 2011 to June 2013, (3) his contribution to obtaining a commitment from the Small Business Administration (the SBA) for funding availability of \$15 million through the SBIC debenture program, (4) continued penetration in the SBA 7(a) market, and (5) increasing the volume of SBA 7(a) loans funded.

Barry N. Berlin is the Chief Financial Officer and Executive Vice President. Mr. Berlin's primary areas of responsibility include oversight and primary responsibility for all aspects of financial reporting and SEC reporting including our system of internal controls and cash management and for the supervision of our financial reporting, accounting, servicing, information technology and insurance functions. In addition, along with Mr. Salit (our Chief Operating Officer), Mr. Berlin is responsible for obtaining leverage upon attractive terms. His specific major accomplishments include (1) successfully managing the Company's financial reporting process, internal controls, information technology and insurance coverage, (2) his contributions to the Company earning \$3.6 million, (3) his contribution in obtaining the amendment to our credit facility from a secured to an unsecured facility, increasing availability under the facility and extending the maturity date from December 2011 to June 2013 and (4) his contribution to obtaining a commitment from the SBA for funding availability of \$15 million through the SBIC debenture program.

### **Role of Management in the Compensation-Setting Process**

Certain of the Company's named executive officers play a role in the compensation-setting process. In 2011, our Chief Executive Officer made recommendations to the Compensation Committee concerning the compensation of Messrs. Berlin and Salit. The Chief Executive Officer's recommendations to the Compensation Committee influence the base salary, potential annual bonus, and the granting of long-term equity incentive compensation to each of these executive officers. While the Compensation Committee gives much weight to the Chief Executive Officer's opinion, the Compensation Committee makes its own recommendation for each element of these executive officers' compensation. The final decision for all elements of the Company's compensation to Messrs. Berlin and Salit is ultimately made by the Board based upon the recommendations of the Compensation Committee. The Compensation Committee is responsible for approving all compensation to Mr. Rosemore.





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In 2011, the Compensation Committee also consulted the Chief Financial Officer as to his judgment of the Company's financial status as a whole before making final decisions concerning salary and long-term equity incentive awards. Both the Chief Financial Officer and the Chief Operating Officer provided input to the Compensation Committee regarding the Company's financial status prior to the establishment of the aggregate cash bonus pool.

Our Chief Executive Officer provides to each named executive officer, at least annually, an informal evaluation and review of the individual contributions of the executive to the business of the Company. On an informal basis, the Compensation Committee requested that each named executive officer discuss the job performance of the other named executive officers.

### **Chief Executive Officer Compensation**

Mr. Rosemore's current annual salary, as established by his employment agreement, was set by the Compensation Committee at \$460,000 effective as of January 1, 2012. Also, during 2011 he was awarded a cash bonus of \$65,000.

### **Use of Independent Consultants**

The Compensation Committee reviews the overall compensation program to assure that it is reasonable and, in consideration of all the facts, including practices of comparably sized REITs, adequately recognizes performance tied to creating shareholder value and meets overall Company compensation and business objectives. The Compensation Committee has historically not utilized the services of an independent advisor or other compensation consultant when determining the appropriate compensation packages for the Company's named executive officers. Instead, the Compensation Committee believes that it may rely upon our accounting and human resource departments to provide sufficient information necessary to make the compensation decisions. The Company has relied upon its own internal resources to compile publicly available information concerning peer companies and the practices and trends in its industry, and anticipates continuing to do so. The group of peer companies consists of other specialty finance REITs, hospitality companies and other REITs that are comparable in size to the Company. These companies include: Arbor Realty Trust, Inc.; BRT Realty Trust; Capital Lease Funding, Inc.; Capital Trust, Inc.; Colony Financial, Inc.; Dynex Capital, Inc.; Medallion Financial Corp.; New York Mortgage Trust; Resource Capital Corp.; and Supertel Hospitality, Inc. If the Compensation Committee determines that using an independent consultant in the future is desirable, however, the Compensation Committee's Charter does allow for the use of such a consultant and the Compensation Committee is empowered to contract this work to an appropriate third party.

### **Base Salary**

The Compensation Committee historically met mid-year, typically in May, to review the base salary and long-term incentives provided to our named executive officers for the twelve-month period ending on June 30 of that year. However, this meeting was changed to December in 2011. At that meeting, the Compensation Committee typically reviews and, to the extent deemed appropriate, may change the base salary of all or some of our named executive officers for the upcoming twelve month period beginning January 1.

The predominant factors considered by the Compensation Committee in recommending base salaries for the applicable named executive officers are: (1) the performance of the Company, measured by both financial and non-financial objectives, (2) individual accomplishments, (3) the responsibilities of the officer and any planned change of responsibilities for the forthcoming year and (4) the salary required to retain the named executive officer. The Compensation Committee also considers the following factors, which may vary in weight from year-to-year: (1) salaries paid for similar positions within the real estate and REIT industry as disclosed in public filings and (2) the proposed base salary relative to that of the Company's other executive officers. The Compensation Committee does not directly tie salaries to those paid by comparable companies; the information relating to the peer companies is one of several guidelines used to assess the reasonableness of the compensation paid by the Company. Base salaries paid in calendar year 2011 are quantified below in the Summary Compensation Table.

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The Compensation Committee met in May 2011 and again in December 2011 (as a result of changing the annual review of salaries to December of each year). The Compensation Committee discussed each of our named executive officers' performance during 2011 including major accomplishments and achievement of goals. The Compensation Committee also discussed the current economic conditions, the Company's performance, and whether given the general economic outlook, any additional raise in salary was appropriate for the named executive officers. At the May 2011 meeting, the Compensation Committee approved increases in the base salaries of our named executive officers. The base salary of Mr. Rosemore was increased from \$446,900 to \$450,000, and the base salary of Messrs. Berlin and Salit were increased from \$301,200 to \$315,000. At the December 2011 meeting, the Compensation Committee approved an additional increase in base salary for Mr. Rosemore from \$450,000 to \$460,000 and additional increases in base salary from \$315,000 to \$325,000 for Messrs. Berlin and Salit intended to reward each of them for performance, which the Board approved. In addition, during 2011, employee salaries were generally increased for 3% cost of living adjustments. The Compensation Committee believed it was appropriate to approve these increases in base salary during 2011. The aggregate base salary increase during 2011 for Mr. Rosemore was approximately 3% which was consistent with raises provided to our other employees. The aggregate base salary increase for Messrs. Salit and Berlin was approximately 8%. The reason for the increase above 3% was based on the executives' continued increased responsibilities and recognition for stabilizing and enhancing the Company's credit availability through amending our credit facility and obtaining the commitment from the SBA to issue SBIC debentures.

**Annual Management Cash Bonus Incentive**

The Compensation Committee administers the Company's annual cash bonus arrangements which are designed to compensate key management personnel for reaching certain performance milestones and to aid the Company in attracting, retaining and motivating personnel required for the Company's continued performance. The Compensation Committee's general philosophy of providing some consistency in compensation amounts, and avoiding significant changes in the amount of compensation paid from year-to-year, results in less significant increases or decreases in the amount of cash bonuses than might otherwise be paid and has the effect of moderating the extent to which the annual cash bonus is tied to the Company's performance. For 2011, bonuses of \$194,000 were approved for the named executive officers, Messrs. Rosemore, Berlin and Salit. The aggregate of the bonus approved for these three officers in 2010 was \$194,000 and in 2009 was \$179,000. In light of current economic conditions and the performance of the executives, the Compensation Committee determined that the total amount of bonuses to be earned by the named executive officers in 2011 should be equal to the amount earned in 2010, based on the factors set forth below, including the relative performance of the Company compared to its peers, and the total compensation earned by each named executive officer. Therefore, for 2011, the Compensation Committee approved a cash bonus of \$65,000 for Mr. Rosemore and \$64,500 for each of Messrs. Berlin and Salit, all of which were approved by the Board. The bonus arrangements for all other employees differ in that the Compensation Committee only approves the aggregate amount of bonuses payable to all other employees. The aggregate amount approved with respect to the bonus arrangement for all other employees is then approved by the Chief Executive Officer.

Annual cash bonus incentives are earned and paid with respect to the calendar year. Therefore, the Compensation Committee has historically met in the last quarter of each year to review the performance of each of our named executive officers for the year and the performance of the Company in the preceding three quarters (and the Company's anticipated performance in the fourth quarter of the year). In general, at the Compensation Committee's December meeting they will determine base salary, long-term incentives and the amount of annual bonuses to be recommended to the Board. The annual bonuses for our named executive officers approved by the Board are paid in either December of the year approved or January of the following year at the discretion of the named executive officer. Annual bonuses paid with respect to calendar years 2009, 2010 and 2011 are quantified below in the Summary Compensation Table.

Bonuses are discretionary. To the extent paid, bonuses for our named executive officers are primarily based upon a review of the performance of the Company, individual accomplishments, responsibilities of the officer, bonuses paid for similar positions within the real estate and REIT industry, dividends paid, stock price and the annual bonus paid to the named executive officer for the prior year. In addition, changes in responsibilities of the named executive officer, if any, factor into the determination of bonus for the named executive officer. The Chief Executive Officer may also recommend an increase or decrease to the annual bonus for each named executive officer based upon the performance of the executive and the Company during the calendar year and, to some extent, the relative performance of the Company compared to its peers.

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### **Long-term Equity Incentives**

The Compensation Committee is responsible for administration of our Plan, and establishes the number of options granted and restricted shares awarded. The purpose of the Plan is to encourage and enable our named executive officers, employees and non-employee Board members to acquire a proprietary interest in the Company, thus furthering their interest in stimulating the growth and prosperity of the Company. In keeping with the Compensation Committee's philosophy to provide long-term equity incentives to our named executive officers and other key employees, it is anticipated that restricted share awards and share options will be granted to our named executive officers and other key employees on a periodic basis.

The number of shares available under the Plan was initially 500,000, though this number is subject to adjustment upon the occurrence of corporate transactions such as recapitalizations or share splits. As of December 31, 2011, there were 264,000 shares available for grant under the Plan. The Compensation Committee has the authority to select the eligible recipients, the number of shares to be granted, to modify an award from time to time, and to set the rules and guidelines of administration for the Plan. The Compensation Committee also has the sole discretion to impose forfeiture provisions upon certain terminations, or accelerated vesting upon a change in control.

The Compensation Committee reviewed the long-term incentives held by the Company's named executive officers and determined the terms of new long-term equity incentives to be awarded to executives of the Company at its December meeting (prior to 2011, this meeting was held at mid-year). The awards were then presented to the Board for approval.

In 2011, when determining the number of restricted shares to be granted to each of Messrs. Rosemore, Berlin and Salit, the Compensation Committee was primarily influenced by its objective for the grant date fair value of the restricted share awards to be equal to a fixed dollar amount. This objective results in more shares being granted when the Company's share price is relatively low, and fewer shares being granted when the Company's share price is relatively high. The Compensation Committee does not use the number of restricted shares granted as an incentive in itself, but views the granting of equity as an incentive for our named executive officers to manage the Company such that its share price will appreciate, thereby benefiting all of the Company's shareholders. The Compensation Committee has established a two-year vesting period for the restricted shares because it believes that the restricted shares provide an incentive for our named executive officers to maximize the Company's financial performance over the long term.

During 2011 Mr. Rosemore received 3,334 restricted shares and Messrs. Berlin and Salit received 3,333 shares each with a grant date of March 14, 2011. The terms of these awards are described in greater detail in the narrative following the Grants of Plan-Based Awards in 2011 table. Individual grants were made by the Compensation Committee based upon the Compensation Committee's own deliberations as to the individual's overall level of compensation.

The Company generally grants equity awards to our named executive officers in the form of restricted shares, instead of share options, and expects to continue to do so in the future. This practice was adopted in part because it aligned the Company with its peers, and in part because restricted shares result in equity ownership by the named executive officer, thereby aligning the executives' interest with the Company's other shareholders, instead of simply giving the executives an interest in share price appreciation, which may result from granting of share options.

### **Severance and Change in Control Agreements**

The Compensation Committee believes that severance and, in select circumstances, change in control arrangements, are necessary to attract and retain the talent necessary for our long-term success. However, the Compensation Committee does not view severance programs for named executive officers as an additional element of compensation. Rather, the Compensation Committee believes that severance programs allow the Company's named executive officers to focus on duties at hand and provide security should their employment be terminated through no fault of their own. Currently, all of our named executive officers are covered by severance provisions in their employment agreements.

Each of our named executive officers has entered into an agreement with the Company (which is discussed under Executive Compensation Employment Agreements) pursuant to which he is granted enhanced severance benefits. The Compensation Committee believes that these arrangements are appropriate and consistent with similar provisions agreed upon between comparable sized public companies and their executive officers. The employment agreements are discussed in greater detail below in the section entitled Executive Compensation Potential Payments Upon Termination or Change in Control.

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### **Other Compensation Plans**

The Company maintains a profit sharing plan that includes a defined contribution plan (the 401(k) Plan ) and a discretionary plan (the Profit Sharing Plan ) that is intended to satisfy the tax qualification requirements of Section 401(a) of the Internal Revenue Code. The Company's full time employees, including our named executive officers, are eligible to participate in the 401(k) Plan and are permitted to contribute a portion of their eligible compensation for purposes of the 401(k) plan (subject to the applicable statutory limits of \$16,500, or \$22,000 for eligible participants over the age of 50, in calendar year 2011). All amounts deferred by a participant under the 401(k) Plan's salary reduction feature vest immediately in the participant's account. While the Company may (but is not required to) make matching contributions under the 401(k) Plan, none were made during fiscal 2011. In lieu of 401(k) matching contributions, pursuant to the Profit Sharing Plan, the Board elected to make a discretionary contribution of \$234,000 during the plan year ended December 31, 2011, \$216,000 during the plan year ended December 31, 2010 and \$199,000 during the plan year ended December 31, 2009. Contributions to the Profit Sharing Plan are available to all full-time employees who meet the eligibility requirements of the plan. In general, vesting in the Profit Sharing Plan occurs ratably between years two to six of employment.

### **Indemnification Agreements**

We have entered into an indemnification agreement with each of our trust managers and named executive officers. These agreements provide for the Company to, among other things, indemnify such persons against certain liabilities that may arise by reason of their status or service as trust managers or named executive officers, to advance their expenses incurred as a result of a proceeding as to which they may be indemnified and to cover such person under any trust managers' and officers' liability insurance policy the Company chooses, in its discretion, to maintain. These indemnification agreements are intended to provide indemnification rights to the fullest extent permitted under applicable indemnification rights statutes in the State of Texas and shall be in addition to any other rights the individual may have under the Company's Declaration of Trust, Bylaws and applicable law. Management believes these indemnification agreements enhance the Company's ability to attract and retain knowledgeable and experienced executives and independent, non-management trust managers.

### **Tax Considerations**

Code Section 162(m) places a limit of \$1,000,000 on the amount of compensation that the Company may deduct for federal income tax purposes in any one year with respect to the Company's Chief Executive Officer, and the next three highest paid executives. However, performance-based compensation that meets certain requirements is excluded from the \$1,000,000 limitation. The Compensation Committee is aware of this tax law, but believes that none of the executive officers currently receives compensation at or near the \$1,000,000 maximum. The Compensation Committee will continue to keep this provision in mind for future compensation decisions, and will take measures to preserve the deductibility of compensation payments and benefits to the extent reasonably practicable and to the extent consistent with its other compensation objectives.

## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has (1) reviewed and discussed the foregoing Compensation Discussion and Analysis ( CD&A ) with the Company's Chief Executive Officer and Chief Financial Officer; and (2) based upon the review and discussion, recommended to the Board that the CD&A be included in this proxy statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

This report is submitted by the following members of the Compensation Committee:

*Irving Munn (Chair)*

*Barry A. Imber*

*Nathan G. Cohen*

Table of ContentsEXECUTIVE COMPENSATION**Summary Compensation Table**

The table below sets forth information concerning compensation earned for services rendered to the Company by each of our named executive officers for the three calendar years ended December 31, 2011. The Company has entered into employment agreements with our named executive officers, which are described below under Employment Agreements.

*Name and Principal*

<i>Position</i>	<i>Year</i>	<i>Salary<sup>(1)</sup></i>	<i>Bonus<sup>(1)</sup></i>	<i>Share Awards<sup>(2)(3)</sup></i>	<i>Option Awards</i>	<i>All Other Compensation<sup>(4)</sup></i>	<i>Total</i>
<b>Lance B. Rosemore</b>	<b>2011</b>	<b>\$ 448,321</b>	<b>\$ 65,000</b>	<b>\$ 29,072</b>	\$	\$ 51,943	\$ 594,336
<i>Chief Executive Officer</i>	2010	435,372	65,000	22,545		58,751	581,668
	2009	418,903	60,000	27,839		67,284	574,026
<b>Barry N. Berlin</b>	<b>2011</b>	<b>\$ 307,525</b>	<b>\$ 64,500</b>	<b>\$ 29,064</b>	\$	\$ 45,546	\$ 446,635
<i>Chief Financial Officer</i>	2010	293,430	64,500	22,545		44,883	425,358
	2009	282,329	59,500	27,831		44,194	413,854
<b>Jan F. Salit</b>	<b>2011</b>	<b>\$ 307,525</b>	<b>\$ 64,500</b>	<b>\$ 29,064</b>	\$	\$ 44,883	\$ 445,972
<i>Chief Operating and Investment Officer</i>	2010	293,430	64,500	22,545		44,194	424,669
	2009	282,329	59,500	27,831		43,792	413,452

- (1) During 2011, salary and bonus as a percentage of total compensation was approximately 86% for Lance B. Rosemore and 83% each for Messrs. Berlin and Salit.
- (2) As described in the CD&A, the Compensation Committee grants share and option awards on a discretionary basis. The terms of the share awards provide for dividends on non-vested Shares to be paid to the holder.
- (3) Represents the grant date fair value of stock awards for the applicable fiscal year in accordance with Accounting Standards Codification (ASC) Topic 718, Compensation - Stock Compensation. See the Grants of Plan-Based Awards in 2011 table for information on awards made in 2011. These amounts do not correspond to the actual value that will be recognized as compensation by the named executive officers.
- (4) See table below for a breakdown of all other compensation. Other than Mr. Rosemore, the Company has determined that the amounts of prerequisites and other personal benefits paid to each of the named executive officers does not exceed \$10,000. The other column below represents reimbursement of membership dues at a country club for Mr. Rosemore, reimbursement of cell phone costs and reimbursement for medical insurance for his child who was a full-time student and qualified for reimbursement pursuant to Mr. Rosemore's employment agreement.