Resource Capital Corp.
Form 10-K
March 15, 2012

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to __________

Commission file number: 1-32733

RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	20-2287134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

712 5th Avenue, 12th Floor, New York, NY 10019
(Address of principal executive offices) (Zip code)

(212) 506-3870
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value	New York Stock Exchange (NYSE)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No R

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of such stock on the last business day of the registrant’s most recently completed second fiscal quarter (June 30, 2011) was approximately $432,599,993.

The number of outstanding shares of the registrant’s common stock on March 8, 2012 was 83,173,755 shares.

DOCUMENTS INCORPORATED BY REFERENCE
[None]

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
INDEX TO ANNUAL REPORT
ON FORM 10-K

			Page
		Forward-Looking Statements	
PART I			
	Item 1:	Business	3
	Item 1A:	Risk Factors	15
	Item 1B:	Unresolved Staff Comments	34
	Item 2:	Properties	34
	Item 3:	Legal Proceedings	34
	Item 4:	Mine Safety Disclosures	34
PART II			
	Item 5:	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
	Item 6:	Selected Financial Data	37
	Item 7:	Management’s Discussion and Analysis of Financial Condition and Results of Operations	38
	Item 7A:	Quantitative and Qualitative Disclosures About Market Risk	72
	Item 8:	Financial Statements and Supplementary Data	74
	Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	128
	Item 9A:	Controls and Procedures	128
	Item 9B:	Other Information	130
PART III			
	Item 10:	Directors, Executive Officers and Corporate Governance	130
	Item 11:	Executive Compensation	134
	Item 12:		140

	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	
Item 13:	Certain Relationships and Related Transactions and Director Independence	141
Item 14:	Principal Accountant Fees and Services	145
PART IV		
Item 15:	Exhibits, Financial Statement Schedules	146
SIGNATURES		148

(Back to Index)

(Back to Index)

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expects,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “will” and “would” or the terms or other comparable terminology.

Forward-looking statements contained in this report are based on our beliefs, assumptions and expectations regarding 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 report 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 report, including those set forth under the sections captioned “Risk Factors,” “Business,” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations;”

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;

availability, terms and deployment of capital;

availability of qualified personnel;

changes in governmental regulations, tax rates and similar matters;

changes in our business strategy;

availability of investment opportunities in commercial 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.

We caution you not to place undue reliance on these forward-looking statements which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

General

We are a diversified real estate finance company that is organized and conducts our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. Our investment strategy focuses on commercial real estate, and commercial real estate-related assets and, to a lesser extent, commercial finance assets. We invest in the following asset classes: commercial real estate-related assets such as commercial real estate property, whole loans, A-notes, B-notes, mezzanine loans, commercial mortgage back securities and investments in real estate joint ventures as well as commercial finance assets such as bank loans, lease receivables and other asset-back securities, trust preferred securities, debt tranches of collateralize debt obligations, structured note investments and private equity investment principally issued by financial institutions. 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 have financed 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 have sought to mitigate interest rate risk through derivative instruments.

We are externally managed by Resource Capital Manager, Inc., which we refer to as the Manager, a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ: REXI), a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, commercial finance and financial fund management operating segments. As of December 31, 2011, Resource America managed approximately $13.3 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

(Back to Index)

(Back to Index)

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; and
	Commercial real estate, or CRE, primarily multifamily properties.
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;
	Preferred equity investment in a commercial leasing enterprise comprised of small- and middle-ticket commercial direct financing leases and notes;
	Structured note investments and residential mortgage-backed securities, which we refer to as RMBS, which comprise our trading securities portfolio;
	Debt tranches of collateralized debt obligations and collateralized loan obligations, which we refer to as CDOs and CLOs, respectively.

During 2011, the economic environment became more positive in the United States which resulted in several positive operating developments for us. Our ability to access the capital markets improved as we raised $83.6 million through our dividend reinvestment and share purchase program, or DRIP, entered into a $100.0 million term facility with Wells Fargo Bank, National Association in February 2011 to purchase CMBS, entered into a $150.0 million repurchase facility with Wells Fargo in February 2012 to originate CRE loans and closed our fourth CLO securitization, Apidos CLO VIII, in October 2011. Our asset quality improved, resulting in substantial decreases in 2011 in both our provision for loan losses (to $13.9 million in 2011 from $43.3 million in 2010) and impairment losses (to $6.9 million in 2011 from $26.8 million in 2010), although we did experience a moderate increase (recorded through other comprehensive income) in losses with respect to our available-for-sale portfolio (to $32.0 million in 2011 from $19.3 million in 2010), which we attribute principally to market factors rather than economic problems with the portfolio assets.

In terms of our investments and investment portfolio growth, we began to see increased opportunities to deploy our capital. We invested $5.0 million through Resource TRS, our taxable REIT subsidiary, in structured finance vehicles, principally CLO equity, which we have classified as trading securities. Because of the success of that new investment, we committed an additional $8.0 million through February 2011. We also began to cautiously reenter the

CRE lending market in the fourth quarter of 2010 and through December 2011 have closed on 13 new whole loans totaling $159.6 million. We also purchased 18 newly-underwritten CMBS for $72.8 million during the 12 months ended December 31, 2011 with the aforementioned Wells Fargo CMBS facility. In February 2011, we purchased a company that manages $1.9 billion of bank loan assets and are entitled to collect senior, subordinated and incentive management fees. Based upon these recent asset purchases and credit market events, we expect to be able to invest a significant portion of our available unrestricted and restricted cash balances and, as a result, modestly grow our net interest income in 2012.

Because of our investments in CREs and the resulting significant tax depreciation charges, we now use Funds from Operations, or FFO, as our primary operating metric to determine distributions to shareholders. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. We expect that our FFO will be greater than our GAAP net income primarily because real estate related depreciation and amortization is not deducted in the calculation for FFO.

(Back to Index)

(Back to Index)

Historically, we had calculated distributions to our shareholders based on our estimate of REIT taxable income. We now evaluate our performance based on several performance measures, including FFO and Adjusted Funds from Operations, or AFFO, in addition to net income. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts as net income (computed in accordance with GAAP), excluding gains or losses on the sale of depreciable real estate, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization, and after adjustments for unconsolidated/uncombined partnerships and joint ventures. AFFO is a computation made by analysts and investors to measure a real estate company's cash flow generated by operations. We calculate AFFO by adding or subtracting from FFO: non-cash impairment losses resulting from fair value adjustments on financial instruments, non-cash provision for loan losses, straight-line rental effects, share based compensation, amortization of various deferred items and intangible assets, gains on debt extinguishment, several REIT tax planning adjustments considered non-recurring by management and capital expenditures that are related to our real estate owned. Management believes that FFO and AFFO are appropriate measures of our operating performance in that they are frequently used by analysts, investors and other parties in the evaluation of REITs. Management uses FFO and AFFO as measures of our operating performance, and believes they are also useful to investors, because they facilitate an understanding of our operating performance after adjustment for certain non-cash items, such as real estate depreciation, share-based compensation and various other items required by GAAP, and capital expenditures, that may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. While the our calculation of AFFO may differ from the methodology used for calculating AFFO by other REITs and our AFFO may not be comparable to AFFO reported by other REITs, we also believe that FFO and AFFO may provide investors with an additional useful measure to compare its performance with some other REITs. Neither FFO nor AFFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore FFO and AFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor AFFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity. We expect that our FFO will continue to be greater than REIT taxable income for several reasons, namely, accelerated tax depreciation from our CRE assets (both wholly-owned and through joint ventures) and the exclusion of income from our taxable REIT subsidiaries, or TRS, from REIT taxable income until that income is paid to us in a dividend. For further discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Business Strategy

The core components of our business strategy are:

Managing our investment portfolio. As of December 31, 2011, we managed $2.3 billion of assets, including $1.9 billion of assets financed and held in CDOs. The core of our management process is credit analysis which we use to actively monitor our existing investments and as a basis for evaluating new investments. 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 stress analyses. After making an investment, the Manager and Resource America engage in active monitoring of our investments for early detection of troubled and deteriorating assets. If a default occurs, we will use our senior management team's asset management experience in seeking to mitigate the severity of any losses, and we will seek to optimize the recovery from assets if we foreclose upon them.

Managing our interest rate and liquidity risk. We generally seek to manage interest rate and liquidity risk so as to reduce the effects of interest rate changes on us. On our long-term financing we seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. Historically, we have used

CDO vehicles structured for us by our Manager to achieve this goal. From 2008 through 2011, we financed new investments predominantly through existing capacity in our CDOs or through cash available from principal repayments on or payoffs of existing investments. As credit markets have begun to reopen, we also expect to cautiously utilize new leverage to finance new investments. We also seek to mitigate interest rate risk through the use of derivative instruments, principally interest rate swaps and interest rate caps.

We manage our interest rate and liquidity risk on our short-term financing, principally repurchase agreements, by limiting the amount of our financial exposure under the facilities to either a stated investment amount or a fixed guaranty amount. During the past 12 months, as a result of our new Wells Fargo CMBS facility, we had $55.9 million of short-term debt and $15.8 million of derivative instruments associated with this debt as of December 31, 2011.

Investment in real estate and commercial finance assets. We expect to continue to invest in commercial real estate whole loans, B notes, mezzanine debt, CMBS rated below AAA by Standard & Poors, or S&P, commercial finance assets, including bank loans and to a lesser extent, other ABS, structured note investments and debt tranches of CDOs and CLOs, subject to the availability of investment funds and financing. Our equity at December 31, 2011 was invested 63% in commercial real estate loans, 31% in commercial bank loans, and 6% in other investments. In 2012, we expect to recycle liquidity within our CDO structures to make investments and replace loans that have been paid down or paid off and to replace loans that may be sold and to originate new loans through our $150 million Wells Fargo facility closed in February 2012.

(Back to Index)

(Back to Index)

Debt repurchase. We have been able to take advantage of market illiquidity that resulted in limited trading of CDO notes issued in our two CRE CDO securitizations by buying these debt securities at substantial discounts to par. This strategy, which has generated gains on the extinguishment of the debt, has allowed us to mitigate credit losses in our loan and lease portfolio and impairment losses in our investment securities portfolio. In 2011, we bought $10.0 million par value of our CRE CDO debt, a discount to par of 39%, for approximately $6.1 million. As a result, our gain on the extinguishment of debt for 2011 was $3.9 million which offset in part the credit and impairment losses we realized in 2011.

Diversification of investments. We seek to manage our investment risk by maintaining a diversified portfolio of real estate-related and commercial finance assets. As funds become available for investment or reinvestment, we seek to maintain that diversification while allocating our capital to those sectors that we believe are the most economically attractive. 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.

Our Operating Policies and Strategies

Investment guidelines. We have established investment policies, procedures and guidelines that are reviewed and approved by our investment committee and board of directors. The investment committee meets regularly to monitor the execution of our investment strategies and our progress in achieving our investment objectives. 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.

Financing policies. We have used leverage in order to increase potential returns to our stockholders and for financing our portfolio. We do not speculate on changes in interest rates. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage and our investment committee has the discretion, without the need for further approval by our board of directors, to increase the amount of leverage we incur above our targeted range for individual asset classes subject, however to any leverage constraints that may be imposed by existing financing arrangements.

We have historically used borrowing and securitization strategies, substantially through CDOs, to accomplish our long-term match funding financing strategy. Credit markets had significantly limited our ability to execute our long term financing strategy. However, we began to see positive developments in credit markets during 2011 and we were able to access new financing. As a result of recent improvements in our ability to access credit markets, we expect to cautiously use leverage through our two Wells Fargo facilities, and other credit arrangements we may be able to obtain to finance new investments where we believe we can achieve attractive risk-adjusted returns.

Hedging and interest rate management strategy. We use derivative financial instruments to hedge a portion of the interest rate risk associated with our borrowings. Under the federal income tax laws applicable to REITs, we generally will be able to enter into transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, provided that our total gross income from such hedges and other non-qualifying sources must not exceed 25% of our total gross income. These hedging transactions may include interest rate swaps, collars, caps or floors, puts and calls and options.

Credit and risk management policies. Our Manager focuses its attention on credit and risk assessment from the earliest stage of the investment selection process. In addition, the Manager screens and monitors all potential investments to determine their impact on maintaining our REIT qualification under federal income tax laws and our exclusion from investment company status under the Investment Company Act of 1940. 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.

(Back to Index)

(Back to Index)

Our Investment Strategy

General

The following table describes our investment-class allocations and certain characteristics of each class as of December 31, 2011 (dollars in thousands):

	Amortized cost	Estimated fair value (1)	Percent of portfolio	Weighted average coupon
Loans Held for Investment:				
Commercial real estate loans:				
Mezzanine loans	$ 67,874	$ 67,046	3.26%	4.88%
B notes	16,435	16,338	0.80%	8.68%
Whole loans	544,673	522,937	25.45%	4.81%
Bank loans	1,170,599	1,142,907	55.63%	4.03%
Loans receivable-related party	9,497	9,497	0.46%	8.35%
	1,809,078	1,758,725	85.60%	
Loans held for sale:				
Bank loans	3,154	3,154	0.15%	1.94%
	3,154	3,154	0.15%	
Investments in Available-for-Sale Securities:				
CMBS	161,512	132,820	6.46%	4.69%
ABS (2)	28,513	25,224	1.23%	2.79%
	190,025	158,044	7.69%	
Investment Securities-Trading:				
Structured notes	27,345	31,553	1.54%	N/A (3)
RMBS	8,729	7,120	0.35%	N/A (3)
	36,074	38,673	1.89%	
Other (non-interest bearing):				
Investment in real estate	48,027	48,027	2.34%	N/A
Investment in unconsolidated entities	47,899	47,899	2.33%	N/A
	95,926	95,926	4.67%	
Total portfolio/weighted average	$ 2,134,257	$ 2,054,522	100.00%	

(1) The fair value of our investments represents our management's estimate of the price that a market participant would pay for such assets. Management bases this estimate on the underlying interest rates and credit spreads for fixed-rate securities and, to the extent available, quoted market prices.

(2) ABS includes both ABS and Other ABS investments. The fair value of the ABS includes $23,000 fair value for Other ABS at December 31, 2011. ABS includes both ABS and Other ABS investments. The fair value of the ABS includes $23,000 fair value for Other ABS at December 31, 2011.

(3) There is no stated rate associated with these securities.

Commercial Real Estate-Related Investments

Whole loans. We originate primarily first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enables 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 (described below), B notes (described below), mezzanine loans or other participations, which we may hold or sell to third parties. We do not obtain ratings on these investments. At origination, our whole loan investments had loan to value, or LTV, ratios of up to 80%. We expect to hold our whole loans to their maturity. Since the beginning of 2008 through December 31, 2011, we modified 26 commercial real estate loans, or CRE loans.

Senior interests in whole loans (A notes). We invest in senior interests in whole mortgage loans, referred to as A notes, either directly originated or purchased from third parties. We do not obtain ratings on these investments. At the date of investment, our A note investments had LTV ratios of up to 70%. We expect to hold our A note investments to their maturity.

(Back to Index)

(Back to Index)

Subordinate interests in whole loans (B notes). We invest in subordinate interests in whole loans, referred to as B notes, which we either directly originate or purchase from third parties. B notes are loans secured by a first mortgage but are subordinated to 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 to the A note lender. 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 obtain ratings on these investments. At the date of investment, our B note investments had 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.

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. Historically, at inception, our mezzanine investments had 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 loans but may have shorter or longer terms. We expect to hold these investments to maturity.

The following charts describe the loan type, property type and the geographic breakdown of our commercial real estate loan portfolio as of December 31, 2011 (based on par value):

Loan Type

(Back to Index)

(Back to Index)

Property Type

Geographic Area By State

As these charts demonstrate, our portfolio contains a diversified mix of property types with approximately 92% of the portfolio focusing on four types: Multifamily−38%, Hotel−30%, Retail−17% and Office−7%.

Our geographic mix includes approximately 42% of our portfolio in California, which we split into Southern (28%) and Northern (14%) regions. Within the Southern California region, we have 99% of our portfolio in whole loans with 79% in three property types, Hotel−49%, Retail−22% and Multifamily−9%. Within the Northern California region, we have 92% of our portfolio in whole loans with 92% in two property types: Multifamily−63% and Retail−29%. As noted in these statistics, this portfolio is made up primarily of whole loans where we are able to better control the structure of the loan and maintain a direct lending relationship with the borrower. We view the investment and credit strategy as being adequately diversified across property type and loan type across both the Southern and Northern California regions.

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. The majority of our CMBS investments have been 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.

(Back to Index)

(Back to Index)

Commercial Real Estate Investments

In 2011, we began to invest directly in ownership of commercial real estate as we restructured two real estate loans to take control of properties where we believe we can protect capital and ultimately generate capital appreciation. We also acquired two multifamily real estate assets, one through a joint venture and another as wholly-owned by us. We primarily use a related-party, Resource Real Estate, a subsidiary of Resource America to manage these assets on our behalf.

Other Real Estate Investments

We invest in joint ventures and other interests that finance the acquisition of distressed commercial properties and mortgage loans on distressed commercial properties. These interests have the objective of repositioning the directly owned properties and the collateral underlying the mortgages, where applicable, to enhance their value and realize capital appreciation. During 2011, these investments did not constitute a material portion of our assets. During 2012, depending upon our capital position, credit market conditions and the availability of investment opportunities, we may seek to expand our investments in this area. Our investment is included in investments in unconsolidated subsidiaries at December 31, 2011 on our consolidated balance sheet.

Structured note investments and Residential Real Estate-Related Investments, or RMBS

We invest in structured note investments and RMBS as part of our trading portfolio. Structured note investments are investments in structured finance vehicles, principally CLO equity, which we have classified as trading securities. These securities are typically subordinate to investment grade or non-investment grade assets. The majority of our structured notes have not been rated by any nationally recognized rating agencies. These bonds pay subordinated share payments typically quarterly and payments are determined through the waterfall of the structured vehicle in which we have purchased an interest. We also invest in RMBS, which are securities that are secured by or evidence by good 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. We expect that our RMBS will include loan pools with home equity loans (loans that are secured by subordinate liens), residential B or 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).

Commercial Finance Investments

Subject to limitations imposed by REIT qualification standards and requirements for exclusion from regulation under the Investment Company Act of 1940, which we refer to as the Investment Company Act, we may invest in the following commercial finance assets:

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 mortgages and liens on the assets of the borrowers. 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.

(Back to Index)

(Back to Index)

The following chart describes the industry breakdown of our bank loans as of December 31, 2011 (based on par value):

Bank Loans by Industry

(1) All others is made up of the following industries (by percentage):

Personal, Food and Miscellaneous Services	3.2%
CDO	2.6%
Aerospace and Defense	2.5%
Diversified/conglomerate manufacturing	2.4%
Mining, Steel, Iron and Non-Precious Metals	2.0%
Buildings and Real Estate	1.7%
Finance	1.4%
Packaging and Forest Products	1.4%
Containers, Packaging and Glass	1.4%
Diversified Natural Resources, Precious Metals and Minerals	1.2%
Personal and Non Durable Consumer Products (Mfg. Only)	1.2%
Beverage, Food and Tobacco	1.1%
Oil and Gas	1.0%
Ecological	0.9%
Cargo Transport	0.8%
Home and Office Furnishings, Housewares and Durable Consumer Products	0.7%
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	0.7%
Utilities	0.7%
Insurance	0.3%
Farming and Agriculture	0.2%
Grocery	0.2%
Textiles and Leather	0.2%
Contractor - Specialty Services	0.1%
Consumer Non-Durables	0.1%

(Back to Index)

(Back to Index)

Preferred equity. We have a preferred equity investment in a leasing company that invests in small- and middle-ticket full payout lease receivables. Although previously we had maintained a lease receivable portfolio, we transferred that portfolio to the leasing company in return for the preferred interest. We do not expect to invest in a directly-held leasing portfolio for the foreseeable future.

Trust preferred securities and other ABS. We have one investment (less than 0.1% of our total assets) in trust preferred securities. 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 sponsoring 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 a debenture issued by it that tracks the terms of the trust preferred securities. Issuers of trust preferred securities have been generally affiliated with financial institutions because, under then-existing regulatory and tax structures, unlike the proceeds from debt securities the proceeds from trust preferred securities could be treated as primary regulatory capital by the financial institution, while it could deduct the interest it paid on the debt obligation held by the trust from its income for federal income tax purposes.

Competition

See Item 1A "Risk Factors -Risks Relating to Our Business."

Management Agreement

We have a management agreement with the Manager and Resource America under which the Manager provides the day-to-day management of our operations. The management agreement requires the Manager to manage our business affairs in conformity with the policies and the investment guidelines established by our board of directors. The Manager's role as manager is under the supervision and direction of our board of directors. The Manager is responsible for the selection, purchase and sale of our portfolio investments, our financing activities, and providing us with investment advisory services. The Manager also provides us with a Chairman of the Board, a Chief Financial Officer, several accounting professionals and an investor relations officer (on a shared basis). The Manager receives fees and is reimbursed for its expenses as follows:

A monthly base management fee equal to 1/12th of the amount of our equity multiplied by 1.50%. Under the management agreement, ''equity'' is equal to the net proceeds from any issuance of shares of common stock less offering-related costs, plus or minus our retained earnings (excluding non-cash equity compensation incurred in current or prior periods) less any amounts we have paid for common stock repurchases. The calculation is adjusted for one-time events due to changes in accounting principles generally accepted in the United States, which we refer to as GAAP, as well as other non-cash charges, upon approval of our independent directors.

Incentive compensation, calculated as follows: (i) 25% of the dollar amount by which (A) our adjusted operating earnings (before incentive compensation but after the base management fee) for such quarter per common share (based on the weighted average number of common shares outstanding for such quarter) exceeds (B) an amount equal to (1) the weighted average of the price per share of the common shares in the initial offering by us and the prices per share of the common shares in any subsequent offerings by us, in each case at the time of issuance thereof, multiplied by (2) the greater of (a) 2.00% and (b) 0.50% plus one-fourth of the Ten Year Treasury Rate for such quarter, multiplied by (ii) the weighted average number of common shares outstanding during such quarter subject to adjustment to exclude events pursuant to changes in GAAP or the application of GAAP, as well as non-recurring or unusual transactions or events, after discussion between the Manager and the Independent Directors and approval by a majority of the Independent Directors in the case of non-recurring or unusual transactions or events.

Reimbursement of out-of-pocket expenses and certain other costs incurred by the Manager that relate directly to us and our operations.

Pursuant to an amendment to the management agreement on October 16, 2009, the Manager will, in addition to a Chief Financial Officer, provide us with several accounting professionals, each of whom will be exclusively dedicated to our operations, and a director of investor relations who will be 50% dedicated to our operations. The amendment also provides that we will reimburse the Manager for the expense of the wages, salaries and benefits of the Chief Financial Officer and several accounting professionals and 50% of the salary and benefits of the director of investor relations. In addition, we began reimbursing the Manager for the wages, salary and benefits of our Chairman in February 2010.

(Back to Index)

(Back to Index)

Incentive compensation is paid quarterly to the extent any is earned. Up to seventy-five percent (75%) of the incentive compensation will be paid in cash and at least twenty-five percent (25%) will be paid in the form of a stock award. The Manager may elect to receive more than 25% of its incentive compensation in stock. All shares are fully vested upon issuance. However, the Manager may not sell such shares for one year after the incentive compensation becomes due and payable unless the management agreement is terminated. Shares payable as incentive compensation are valued as follows:

if such shares are traded on a securities exchange, at the average of the closing prices of the shares on such exchange over the thirty day period ending three days prior to the issuance of such shares;

if such shares are actively traded over-the-counter, at the average of the closing bid or sales price as applicable over the thirty day period ending three days prior to the issuance of such shares; and

if there is no active market for such shares, at the fair market value as reasonably determined in good faith by our board of directors.

The initial term of the management agreement expired on March 31, 2009. The agreement provides for automatic one year renewals on each March 31 thereafter until terminated. Our board of directors reviews the Manager's performance annually. The management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. Our board of directors must provide 180 days' prior notice of any such termination. If we terminate the management agreement, the Manager is entitled to a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

We may also terminate the management agreement for cause with 30 days' prior written notice from our board of directors. No termination fee is payable with respect to a termination for cause. The management agreement defines cause as:

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

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

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

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

the dissolution of the Manager; and

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

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

The management agreement will terminate at the Manager's option, without payment of the termination fee, if we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately before such event.

Regulatory Aspects of Our Investment Strategy: Exclusion from Regulation Under the Investment Company Act.

We 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 December 31, 2011 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, and interests in real properties, 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.

(Back to Index)

(Back to Index)

We treat our investments in whole mortgage 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 future 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. Historically, we have held "whole pool certificates" in mortgage loans, although, at December 31, 2011 and 2010, we had no whole pool certificates in our portfolios. Pursuant to existing SEC staff guidance, 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 do not expect that investments in CDOs, ABS, bank loans, lease receivables, 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 or majority-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 rely on Section 3(c)(5)(C) for their Investment Company Act exemption, with the result that RCC Real Estate's interests in the CDO subsidiaries do not constitute "investment securities" for the purpose of the 40% test.

Our other subsidiaries, RCC Commercial, Inc., or RCC Commercial, RCC Commercial II, Inc., or RCC Commercial II, Resource TRS, Inc., or Resource TRS, Resource TRS II, Inc., or Resource TRS II and Resource TRS III, Inc. or Resource TRS III do not qualify for the Section 3(c)(5)(C) exclusion. However, we believe they qualify for 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. In addition, with respect to those subsidiaries for which we rely upon the Section 3(c)(1) exclusion, and as required thereby, we limit the number of holders of their securities to not more than 100 persons calculated in accordance with the attribution rules of Section 3(c)(1) and, with respect to those subsidiaries for which we rely on the Section 3(c)(7) exclusion, and as required thereby, we limit ownership of their securities to “qualified purchasers.” 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 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. 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. Any additional guidance from the SEC could further inhibit our ability to pursue our investment strategy.

(Back to Index)

(Back to Index)

Employees

We have no direct employees. Under our management agreement, the Manager provides us with all management and support personnel, including a Chief Financial Officer, and services necessary for our day-to-day operations. To provide its services, the Manager draws upon the expertise and experience of Resource America. As of December 31, 2011, Resource America had 742 employees involved in asset management, including 108 asset management professionals and 634 asset management support personnel. Pursuant to an amendment on October 16, 2009, the Manager must provide us with several accounting professionals, each of whom is exclusively dedicated to our operations, and a director of investor relations who is 50% dedicated to our operations. Under the amendment, we bear the expense of the wages, salaries and benefits of the Chief Financial Officer and the accounting professionals dedicated to us, and 50% of the salary and benefits of the director of investor relations. In addition, in February 2010, we began reimbursing the Manager for the wages, salary, and benefits of our Chairman of the Board, who is exclusively dedicated to us.

Corporate Governance and Internet Address

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors, as defined in the Securities Exchange Act of 1934, as amended, and relevant New York Stock Exchange, or NYSE, rules. The audit, compensation and nominating/corporate governance committees of our board of directors are composed exclusively of independent directors. We have adopted corporate governance guidelines and a code of business conduct and ethics, which delineate our standards for our officers and directors, and employees of our manager.

Our internet address is www.resourcecapitalcorp.com. We make available, free of charge through a link on our site, all reports filed with the SEC as soon as reasonably practicable after such filing. Our site also contains our code of business conduct and ethics, corporate governance guidelines and the charters of the audit committee, nominating and governance committee and compensation committee of our board of directors. A complete list of our filings is available on the Securities and Exchange Commission's website at www.sec.gov. Any of our filings are also available at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The Public Reference Room may be contacted at telephone number (800) 732-0330 for further information.

ITEM 1A. RISK FACTORS

This section describes material risks affecting our business. In connection with the forward-looking statements that appear in this annual report, you should carefully review the factors discussed below and the cautionary statements referred to in "Forward-Looking Statements."

Impact of Current Economic Conditions

Economic conditions in the United States during the past four year have had an adverse impact on our financial condition, which has reduced our income and our ability to make distributions to our stockholders. Continuance of these conditions could further adversely affect our financial conditions.

Although credit market conditions have improved over those of the previous two years, there are still limitations on the availability of credit, declines in the value of real estate and real estate related assets, impairment of the ability of some borrowers to repay their obligations and limited liquidity in the markets for real estate and real estate-related assets. Since mid-2007, economic and credit market conditions have had significant adverse effects on us, causing us to record material impairment charges with respect to investments we hold and significant increases in our provision for loan losses. Moreover, these conditions have made it difficult, and, until 2011 virtually impossible, for us to access new financing to support investment growth. As a result, our income, our ability to make distributions, and the price of our common stock have declined significantly. Failure of economic and credit market conditions to improve materially could further harm our financial condition, income, ability to make distributions to our stockholders and the price of our common stock.

We cannot predict the effects on us of actions taken by the U.S. government and governmental agencies in response to economic conditions in the United States

In response to economic and market conditions, the U.S. government and a number of governmental agencies have established or proposed a series of programs designed to improve the financial system and credit markets, and to stimulate economic growth. The U.S. government and many state and local governments are incurring substantial budget deficits and seeking financing in international and national credit markets. We are unable to evaluate whether these programs and actions have had or will have in the future a beneficial impact upon our financial condition, income, or ability to make distributions to our stockholders.

(Back to Index)

(Back to Index)

Risks Related to Our Financing

Our portfolio has been financed in material part through the use of leverage, which may reduce the return on our investments and cash available for distribution.

Our portfolio has been financed in material part through the use of leverage and, as credit market conditions permit, we will seek such financing in the future. Using 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 may 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 of our currently outstanding financing, when due, on acceptable terms, we may be forced to dispose of some of our assets at 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 may obtain and financing we have obtained through CDOs, does 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, which could result in our loss of distributions from and interests in affected CDOs, which would reduce our assets, income and ability to make distributions.

Under current economic and market conditions, our ability to obtain the capital and financing necessary for growth has been limited, which has limited our profitability, ability to make distributions and the market price of our common stock. Continuation or deterioration of current conditions could further constrain our profitability, ability to make distributions and the market price of our common stock.

We depend upon the availability of adequate debt and equity capital for growth in our operations. Although we recently have raised equity capital through our dividend reinvestment and stock purchase program have entered into two credit facilities and completed one CLO, in general our ability to obtain debt financing and, to a lesser extent, equity capital is still constrained as a result of current economic and market conditions, which has limited our profitability, our ability to make distributions and the market price of our common stock. In addition, 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 value of TRS stock and securities relative to the other assets owned by a REIT. Continuation or deterioration of current economic and market conditions could further constrain our ability to acquire and finance assets, thereby affecting or eliminating our profitability and our ability to make distributions, and the market price of our common stock. Moreover, even if debt and equity capital were to become more readily available to us, we cannot assure you that it would be on terms that would enable us to strengthen our profitability or ability to make distributions.

We are exposed to loss if lenders under our repurchase agreement, warehouse facilities, or other short-term lenders liquidate our portfolio. Moreover, assets acquired by us pursuant to our repurchase agreements, warehouse facilities or other short-term debt may not be suitable for refinancing through future securitization transactions, which may require us to seeks more costly financing for theses assets or to liquidate assets.

We have entered into repurchase agreements, and may in the future enter into other repurchase agreements, warehouse facilities or other debt with similar terms. Our lenders have the right under our current repurchase agreement, and may have the right under such other debt, to liquidate assets acquired thereunder upon the occurrence of certain events, such as an event of default. We are exposed to loss if the proceeds received by the lender upon any such liquidation are insufficient to satisfy our obligation to the lender. We are also subject to the risk that the assets subject to such repurchase agreements, warehouse facilities or other debt with similar terms might not be suitable for refinancing through future securitization transactions. If we are unable to refinance these assets through future securitization transactions, we might be required to seek more costly financing for these assets or to liquidate assets.

(Back to Index)

(Back to Index)

We will lose money on our repurchase transaction 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 in our obligations under the repurchase agreement.

When engaged in repurchase transactions, 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. 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, 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 would reduce our earnings, and thus our cash available for distribution to our stockholders.

Our financing of our REIT qualifying assets with repurchase agreements and warehouse facilities could adversely affect our ability to qualify as a REIT.

We have entered into and intend to enter into, sale and repurchase agreements under which we nominally sell certain REIT qualifying assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we will be treated for U.S. federal income tax purposes as the owners of the assets that are the subject of any such agreement notwithstanding that we may transfer recorder ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the Internal Revenue Service, or IRS, could assert that we did not own the assets during the terms of the sale and repurchase agreement, in which case our ability to qualify as a REIT would be adversely affected. If any of our REIT qualifying assets are subject to a repurchase agreement and are sold by the counterparty in connection with a margin call, the loss of those assets could impair our ability to qualify as a REIT. Accordingly, unlike other REITs, we may be subject to additional risk regarding our ability to qualify and maintain our qualification as a REIT.

Historically, we have financed most of our investments through CDOs and have retained 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.

Historically, we have financed most of our investments through CDOs in which we retained the equity interest. Depending on market conditions, credit availability, and resolution of current credit market conditions, we may seek to use CDOs to finance our investments in the future. The equity interests of a CDO are subordinate in right of payment to all other securities issued by 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 which would significantly reduce the value of that interest. Reductions in the value of the equity interests we have in a CDO, if we determine that they are other than temporary, will reduce our earnings. 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.

If our CDO financings fail to meet their performance tests, including over-collateralization requirements, our net income and cash flow from these CDOs will be eliminated.

Our CDOs generally provide that the principal amount of their assets must exceed the principal balance of the related securities issued by them by a certain amount, commonly referred to as "over-collateralization." The CDO terms provide that, if delinquencies and/or losses exceed specified levels, based on the analysis by the rating agencies (or any financial guaranty insurer) of the characteristics of the assets collateralizing the securities issued by the CDO issuer, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses or delinquencies did not exceed those levels. In addition, a failure by a CDO to satisfy an over-collateralization test typically results in accelerated distributions to the holders of the senior debt securities issued by the CDO entity, resulting in reduction or elimination of distributions to more junior securities until the over-collateralization requirements have been met or the senior debt securities have been paid in full. Our equity holdings are and, when we acquire debt interests in CDOs, our debt interests, if any, generally are subordinate in right of payment to the other classes of debt securities issued by the CDO entity. Accordingly, if overcollateralization tests are not met, distributions on the subordinated debt and equity we hold in these CDOs will cease, resulting in a substantial reduction in our cash flow. Other tests (based on delinquency levels, interest coverage or other criteria) may restrict our ability to receive cash distributions from assets collateralizing the securities issued by the CDO entity. Although at December 31, 2011, all of our CDOs met their performance tests, we cannot assure you that our CDOs will satisfy the performance tests in the future. For information concerning compliance by our CDOs with their over-collateralization tests, see "Management's Discussion and Analysis of Financial Condition and Results of Operation - Summary of CDO and CLO Performance Statistics."

(Back to Index)

(Back to Index)

If any of our CDOs fails to meet collateralization or other tests relevant to the most senior debt issued and outstanding by the CDO issuer, an event of default may occur under that CDO. If that occurs, our Manager's ability to manage the CDO likely would be terminated and our ability to attempt to cure any defaults in the CDO would be limited, which would increase the likelihood of a reduction or elimination of cash flow and returns to us in those CDOs for an indefinite time.

If we issue debt securities, the 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.

Any debt securities we may issue in the future 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 if we breach financial or other covenants, to restrict distributions, and to require approval to sell assets. These covenants could limit our ability to operate our business or manage our assets effectively. 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.

Depending upon market conditions, we may in the future seek financing through CDOs, which would expose us to risks relating to the accumulation of assets for use in the CDOs.

Historically, we have financed a significant portion of our assets through the use of CDOs and CLOs, and have accumulated assets for these financings through short-term credit facilities, typically repurchase agreement facilities. Depending upon market condition, and, consequently, the extent to which such financing is available to us, we may seek similar financing arrangements in the future. These arrangements could expose us to a number of credit risks, including the following:

If we accumulate assets for a CDO or CLO on a short-term credit facility and do not complete the CDO or CLO financing, or if a default occurs under the facility, the short-term lender will sell the assets and we would be responsible for the amount by which the original purchase price of the assets exceeds their sale price, up to the amount of our investment or guaranty.

An event of default under one short-term facility may constitute a default under other credit facilities we may have, potentially resulting in asset sales and losses to us, as well as increasing our financing costs or reducing the amount of investable funds available to us.

We may be unable to acquire a sufficient amount of eligible assets to maximize the efficiency of a CDO or CLO issuance, which would require us to seek other forms of term financing or liquidate the assets. We may not be able to obtain term financing on acceptable terms, or at all, and liquidation of the assets may be at prices less than those we paid, resulting in losses to us.

Using short-term financing to accumulate assets for a CDO or CLO issuance may require us to obtain new financing as the short-term financing matures. Residual financing may not be available on acceptable terms, or at all. Moreover, 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 reduce returns on our assets, which would reduce earnings and, in turn, cash available for distribution to our stockholders.

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 agreements.

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 pursue various hedging strategies to seek to reduce our exposure to losses from adverse changes in interest rates. Our interest rate hedging activity varies 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.

(Back to Index)

(Back to Index)

- 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 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, part of our investment strategy involves entering into 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 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.

We have entered and may in the future enter into hedging instruments that require us to fund cash payments 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 additional collateral for margin 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 include other fees and charges. These liabilities will be reflected in our consolidated balance sheet, 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.

(Back to Index)

(Back to Index)

Approximately 91% of our hedging arrangements are with a single counterparty and, as a consequence, our hedging strategy may fail if that counterparty defaults in its obligations.

As of December 31, 2011, approximately 91% of our outstanding hedges, with a notional amount of $152.1 million, were with Credit Suisse International, or CS. Were CS to default in its obligations under these hedging arrangements, we would lose the hedge protection for which we had contracted which, depending upon market conditions, could result in significant losses to us. We cannot assure you that we could replace the defaulted hedges or that the terms of any replacement hedges we could obtain would be on similar terms, or as to the cost to us of obtaining replacement hedges.

Risks Related to Our Operations

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 report. 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 stockholders. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this report.

We believe AFFO is an appropriate measure of our operating performance; however, in certain instances AFFO may not be reflective of actual economic results.

We utilize AFFO as a measure of our operating performance and believe that it is useful to investors because it facilitates an understanding of our operating performance after adjustment for certain non-cash expenses , such as non-cash impairment losses resulting from fair value adjustments on financial instruments, non-cash provision for loan losses, straight-line rental effects, share based compensation, amortization of various deferred items and intangible assets, gains on debt extinguishment, REIT tax planning adjustments considered non-recurring by management and capital expenditures that are related to our real estate owned. Additionally, we believe that AFFO serves as a good measure of our operating performance because it facilitates evaluation of our Company without the effects of selected items required in accordance with GAAP that may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. Nonetheless, in certain instances, AFFO may not necessarily be reflective of our actual economic results.

We believe potentially increasing capital expenditures could reduce our AFFO.

Substantial capital expenditures for acquisition, renovation or unforeseen circumstances could reduce our AFFO.

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 future terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact our assets, properties or other assets underlying our loans or debt 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 some or all of the investments in our portfolio 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.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

If we fail to maintain an effective system of internal control, fail to correct any matters in the design or operating effectiveness of internal control over financial reporting, or fail to prevent fraud, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

(Back to Index)

(Back to Index)

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 and other assets for which there is no public market. A portion of these securities or other assets 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 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 do 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.

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

In the course of our business, we have taken title to, and expect will in the future take title to, real estate through foreclosure on collateral underlying real estate investments. When 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.

If our allowance for loan and lease losses is not adequate to cover actual or estimated future loan and lease losses, our earnings may decline.

We maintain an allowance for loan and lease losses to provide for loan defaults and non-performance by borrowers of their obligations. Our allowance for loan and lease losses may not be adequate to cover actual or estimated future loan and lease losses and future provisions for loan and lease losses could materially reduce our income. We base our allowance for loan and lease losses on prior experience, as well as an evaluation of risks in the current portfolio. However, losses may exceed our current estimates. The amount of future losses is susceptible to changes in economic, operating and other conditions that may be beyond our control, including changes in interest rates, changes in borrowers' creditworthiness and the value of collateral securing loans and leases. Additionally, if we seek to expand our loan and lease portfolios, we may need to make provisions for loan and lease losses to ensure that the allowance remains at levels deemed appropriate by our management for the size and quality of our portfolios. While we believe that our allowance for loan and lease losses is adequate to cover our anticipated losses, we cannot assure you that will continue to be the case or that we will not further increase the allowance for loan and lease losses. Any increase in our allowance for loan losses will reduce our income and, if sufficiently large, could cause us to incur loss.

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

Before investing in any entity, we will assess the strength and skills of the entity's management, the value of any collateral securing debt, the ability of the entity 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.

(Back to Index)

(Back to Index)

Risks Related to Our Investments

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 accumulated other comprehensive loss and could reduce our 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, we are required by GAAP to record the decline as an asset impairment which will reduce our earnings. As a result of market conditions for our “available-for-sale” investments, we recognized $6.9 million of other-than-temporary impairment through our consolidated statements of operations during the year ended December 31, 2011.

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 would have to repay some portion or all of the loan, which may require us to sell assets, which could potentially be under adverse market conditions. As a result, our earnings would be reduced or we could sustain losses, and cash available to make distributions could be reduced or eliminated.

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, 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 assets underlying investments we may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, with respect to assets that are not match-funded or that have been acquired with variable rate or short-term financing, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread or possibly resulting in negative cash flow from those assets. This could result in reduced profitability and distributions or losses.

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 and exclusion from regulation under the Investment Company Act, we 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 whole loan 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 loan-to-value 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 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.

We historically have invested in small- and middle-ticket lease receivables to small- and mid-size businesses which may have greater risks of default than leases or loans to larger businesses.

We historically have invested in small- and middle-ticket lease receivables. As a result of our investment in LEAF Commercial Capital, Inc., or LCC, (including the contribution of all of our lease receivables to it), we currently do not directly invest in lease receivables. However, we are not prohibited from investing in lease receivables and may do so in the future. Investing in small- and middle- ticket lease receivables involves risk. Many of the obligors are small- to mid-size businesses. As a result, we would be subject to higher risks of lease default than if the obligors were larger businesses. If we seek to repossess and re-lease or sell 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 could experience difficulties and delays in recovering the equipment. Moreover, the equipment could be returned in poor condition and we could 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's deteriorating financial condition could make trying to recover what the obligor owes impractical. The costs of recovering equipment upon an 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 could be high. Higher than expected lease defaults could result in a loss of anticipated revenues. Any such losses could impair our ability to make distributions and reduce the market price of our common stock.

(Back to Index)

(Back to Index)

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

On occasion, we have made private equity investments. Typically, these 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. 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. Moreover, 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, these investments may be highly illiquid so that we may not be able to sell these investments at times we would like to do so or at prices that reflect our cost or the value of the investment on our financial statements.

We record some of our portfolio investments at fair value as estimated by our management and, as a result, there will be uncertainty as to the value of these investments.

We currently hold, and expect that we will hold in the future, portfolio investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We 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 obtained if a ready market for them existed. The value of our common stock will likely decrease if our determinations regarding the fair value of these investments are materially higher than the values that we ultimately realize upon their disposal.

Our assets include bank loans and ABS which will carry higher risks of loss than our real estate-related portfolio.

Subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act, we invest in bank loans and ABS. Our bank loan investments or our 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 loan-to-value ratios than our real estate-related investments. Our bank loan investments, and our ABS backed by loans, involve loans with a par amount of $1.2 billion at December 31, 2011 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.

Risks Related to Our Manager

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 Jonathan Z. Cohen, Thomas C. Elliott, Jeffrey F. Brotman, Jeffrey D. Blomstrom, David J. Bryant, Christopher D.

Allen, Gretchen Bergstresser, David Bloom, Crit DeMent, Joan Sapinsley and Alan F. Feldman, whose continued service is not guaranteed. The departure of any of the executive officers or senior portfolio managers could harm our investment performance.

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 1.50%, 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.

(Back to Index)

(Back to Index)

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 adjusted operating earnings, as defined in the management agreement, exceed the 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.

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.

At the time the management agreement was negotiated, our officers and two of our directors, Edward E. Cohen and Jonathan Z. Cohen, were also officers or directors of the Manager or 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.

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 mortgage-backed securities, or 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 several accounting professionals on his staff, 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 devote 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.

We have engaged in transactions with entities affiliated with the Manager. Our policies and procedures may be insufficient to address any conflicts of interest that may arise.

We have established procedures and policies regarding review, approval and ratification of transactions which may give rise to a conflict of interest between us and persons affiliated or associated with the Manager. In the ordinary course of our business, we have ongoing relationships and have engaged in transactions with entities affiliated or associated with the Manager. Our procedures may not be sufficient to address any conflicts of interest that arise.

(Back to Index)

(Back to Index)

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

Our Manager does 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 depend upon information systems of our manager to conduct our operations. Systems failures could significantly disrupt our business.

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

Risks Related to Real Estate Investments

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. 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 other forms of commercial real estate debt investments, such as CMBS, and, as a result, we may be unable to dispose of underperforming or non-performing investments. The higher risks associated with the subordinate position of our B note investments could subject us to increased risk of loss.

Our real estate debt investments will be subject to the risks inherent in the real estate securing or underlying those investments which could result in losses to us.

Commercial mortgage loans are secured by, and mezzanine loans depend on, the performance of 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 expenses 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 the conditions of specific industry segments in which our lessees may operate;
- 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;
- increases in costs of construction material;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation, and
- acts of God, terrorism, social unrest and civil disturbances.

(Back to Index)

(Back to Index)

Although we currently hold no residential mortgage loans in our portfolio, in the past our portfolio has included substantial residential mortgage investments. Residential mortgage loans are subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay these loans depends upon the borrower's income or assets. A number of factors, including national, regional or local economic downturns, 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.

We risk loss of principal on defaulted mortgage loans we hold to the extent of any deficiency between the value we can realize from the sale of the collateral securing the loan upon foreclosure, and the loan's principal and accrued interest. Moreover, foreclosure of a mortgage loan can be an expensive and lengthy process which could reduce the net amount we can realize on the foreclosed mortgage loan. In a 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 ABS involves greater risks of loss than senior secured debt instruments."

Our investment portfolio may have material geographic, sector, property-type and sponsor concentrations.

We may have material geographic concentrations related to our direct or indirect investments in real estate loans and properties. We also have material concentrations in the property types and industry sectors that are in our loan portfolio. Where we have any kind of concentration risk in our investments, an adverse development in that area of concentration could reduce the value of our investment and our return on that investment and, if the concentration affects a material amount of our investments, impair our ability to execute our investment strategies successfully, reduce our earnings and reduce our ability to make distributions.

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.

(Back to Index)

(Back to Index)

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 acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer 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 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 acquirer 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.

(Back to Index)

(Back to Index)

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 Manager," 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 report. 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 have in the past and may in the future also use proceeds from any offering of our securities that we have not invested or borrowed funds to make distributions. 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 future earnings and cash available for distribution from what they otherwise would have been.

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 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 current economic conditions, 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 registration under 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.

(Back to Index)

(Back to Index)

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 a real estate mortgage investment conduit, or 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 depend 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 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.

(Back to Index)

(Back to Index)

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 was 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, non-U.S. TRSs, such as Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, and Apidos CLO VIII, which we discuss in "Management's Discussion and Analysis of Financial Conditions and Results of Operations," 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.-

(Back to Index)

(Back to Index)

Generally, dividends payable in stock are not treated as dividends for purposes of the deduction for dividends, or as taxable dividends to the recipient. A complex set of rules applies when a distribution is made partially in stock and partially in cash and different shareholders receive different proportions of each. The Internal Revenue Service, in Revenue Procedure 2010-12, has given guidance with respect to certain stock distributions by publicly traded REITS (and RICs). That Revenue Procedure applies to distributions made on or after January 1, 2008 and declared with respect to a taxable year ending on or before December 31, 2011. It provides that publicly-traded REITS can distribute stock (common shares in our case) to satisfy their REIT distribution requirements if stated conditions are met. These conditions include that at least 10% of the aggregate declared distributions be paid in cash and the shareholders be permitted to elect whether to receive cash or stock, subject to the limit set by the REIT on the cash to be distributed in the aggregate to all shareholders. We did not use this Revenue Procedure with respect to any distributions for our 2009, 2010 and 2011 taxable years, but may do so for distributions with respect to 2012.

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 TRSs 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 25% (20% for our 2009 and prior taxable years) 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, Apidos CDO III, Apidos Cinco CDO, and Apidos CLO VIII will be less than 25% 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.

(Back to Index)

(Back to Index)

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 MBS and related borrowings. Under these provisions, our annual gross income from qualifying and 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 current law. 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, Apidos CDO III, Apidos Cinco CDO, and Apidos CLO VIII. 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. In addition, in 2011, the IRS issued a private letter ruling to a REIT reaching a result consistent with our treatment. 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 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.

(Back to Index)

(Back to Index)

We may lose our REIT qualification or be subject to a penalty tax if we modify mortgage loans or acquired distressed debt in a way that causes us to fail our REIT gross income or asset taxes.

Many of the terms of our mortgage loans, mezzanine loans and B-notes and the loans supporting our MBS have been modified and may in the future be modified to avoid foreclosure actions and for other reasons. If the terms of the loan are modified in a manner constituting a "significant modification," such modification triggers a deemed exchange for tax purposes of the original loan for the modified loan. The IRS recently issued Revenue Procedure 2011-16, which addresses the treatment of modified mortgage loans and distressed debt for purposes of the REIT gross income and asset tests. Under existing Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (1) the date we agreed to acquire or originate the loan or (2) in the event of certain significant modifications, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the loan may not be treated as a qualifying "real estate asset" for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the 10% value test.

Revenue Procedure 2011-16 provides a safe harbor pursuant to which we will not be required to redetermine the fair market value of the real property securing a loan for purposes of the REIT gross income and asset tests in connection with a loan modification that is: (1) occasioned by a borrower default; or (2) made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan. No assurance can be provided all of our loan modifications have or will qualify for the safe harbor in Revenue Procedure 2011-16. To the extent we significantly modify loans in a manner that does not qualify for that safe harbor, we will be required to redetermine the value of the real property securing the loan at the time it was significantly modified. In determining the value of the real property securing such a loan, we generally will not obtain third party appraisals, but rather will rely on internal valuations. No assurance can be provided that the IRS will not successfully challenge our internal valuations. If the terms of our mortgage loans, mezzanine loans and B-Notes and loans supporting our mortgage backed securities are significantly modified in a manner that does not qualify for the safe harbor in Revenue Procedure 2011-16 and the fair market value of the real property securing such loans has decreased significantly, we could fail the 75% gross income test, the 75% asset test and/or the 10% value test. Unless we qualified for relief under certain cure provisions in the Code, such failures could cause us to fail to qualify as a REIT.

We and our subsidiaries have and may invest in future acquire distressed debt, including distressed mortgage loans, mezzanine loans, B-Notes and MBS. Revenue Procedure 2011-16 provides that the IRS will treat a distressed mortgage loan acquired by a REIT that is secured by real property and other property as producing in part non-qualifying income for the 75% gross income test. Specifically, Revenue Procedure 2011-16 indicates that interest income on a loan will be treated as qualifying income based on the ratio of (1) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan and (2) the face amount of the loan (and not the purchase price or current value of the loan). The face amount of a distressed mortgage loan and other distressed debt will typically exceed the fair market value of the real property securing the debt on the date the REIT commits to acquire the debt. We believe that we will continue to invest in distressed debt in a manner consistent with complying with the 75% gross income test and maintaining our qualification as a REIT.

Revenue Procedure 2011-16 provides a safe harbor pursuant to which we will not be required to redetermine the fair market value of the real property securing a loan for purposes of the REIT gross income and asset tests in connection with a loan modification that is: (1) occasioned by a borrower default; or (2) made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan. No assurance can be provided that all of the loan modifications have or will be qualify for the safe harbor in Revenue Procedure 2011-16. To the extent we significantly modify loans in a manner that does not qualify for that safe harbor, we will be required to redetermine the value of the real property securing the loan at the time it was significantly modified. In determining the value of the real property securing such a loan, we generally will not obtain third party appraisals, but rather will rely on internal valuations. No assurance can be provided that the IRS will not successfully challenge our internal valuations. If the terms of our mortgage loans, mezzanine loans and B-Notes and loans supporting our MBS are significantly modified in a manner that does not qualify for the safe harbor in Revenue Procedure 2011-16 and the fair market value of the real property securing such loans has decreased significantly, we could fail the 75% gross income test, the 75% asset test and/or the 10% value test. Unless we qualified for relief under certain cure provisions in the Code, such failures could cause us to fail to qualify as a REIT.

(Back to Index)

(Back to Index)

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Philadelphia, Pennsylvania:

We maintain offices through our Manager. Our Manager maintains executive and corporate offices at One Crescent Drive in the Philadelphia Navy Yard in Philadelphia, Pennsylvania under a lease for 13,484 square feet that expires in May 2019. Certain of its financial fund management and certain real estate operations are also located in these offices. Certain of its real estate and commercial finance operations are located in another building at One Commerce Square, 2005 Market Street, Philadelphia, Pennsylvania under a lease for 59,448 square feet that expires in August 2013. In addition, our Manager leases 21,554 square feet of office space at 1845 Walnut Street, Philadelphia, Pennsylvania, which is primarily sublet to Atlas Energy, L.P., an affiliated entity of the Manager. This lease, which expires in May 2013, is in an office building in which the Manager owns a 5% equity interest.

New York, New York:

Our Manager also maintains additional executive offices in a 12,930 square foot location at 712 5th Avenue, New York, New York under a lease agreement that expires in July 2020. A portion of this office space is sublet to The Bancorp, Inc.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

(Back to Index)

(Back to Index)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been listed on the New York Stock Exchange under the symbol "RSO" since our initial public offering in February 2006. The following table sets forth for the indicated periods the high and low prices for our common stock, as reported on the New York Stock Exchange, and the dividends declared and paid during our past two fiscal years:

	High	Low	Dividends Declared	
Fiscal 2011				
Fourth Quarter	$ 6.08	$ 4.55	$ 0.25	(1)
Third Quarter	$ 6.46	$ 4.54	$ 0.25	
Second Quarter	$ 6.78	$ 6.17	$ 0.25	
First Quarter	$ 7.60	$ 6.59	$ 0.25	
Fiscal 2010				
Fourth Quarter	$ 7.65	$ 6.27	$ 0.25	
Third Quarter	$ 6.68	$ 5.17	$ 0.25	
Second Quarter	$ 7.47	$ 5.15	$ 0.25	
First Quarter	$ 7.18	$ 5.05	$ 0.25	

(1) We distributed a regular dividend of $0.25 on January 27, 2012, to stockholders of record as of December 30, 2011.

We are organized and conduct our operations to qualify as a REIT, which requires that we distribute at least 90% of our REIT taxable income. Therefore, we intend to continue to declare quarterly distributions on our common stock. No assurance, however, can be given as to the amounts or timing of future distributions as such distributions are subject to our earnings, financial condition, capital requirements and such other factors as our board of directors deems relevant.

As of March 8, 2012, there were 83,173,755 common shares outstanding held by 466 persons of record.

See Item 12 – "Security Ownerships of Certain Beneficial Owners and Management and Related Stockholder Matters" for information relating to securities authorized for issuance under our equity compensation plans.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

In accordance with the provisions of the management agreement, on January 31, 2011, July 31, 2011 and October 31, 2011 we issued 1,414, 29,808 and 45,938 shares of common stock, respectively, to our Manager. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2010, for the three months ended June 30, 2011 and for the three months ended September 30, 2011, respectively. The issuance of these shares was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

(Back to Index)

(Back to Index)

Performance Graph

The following line graph presentation compares cumulative total shareholder returns of our common stock with the Russell 2000 Index and the NAREIT All REIT Index for the period from February 10, 2006 to December 31, 2011. The graph and table assume that $100 was invested in each of our common stock, the Russell 2000 Index and the NAREIT All REIT Index on February 10, 2006, and that all dividends were reinvested. This data was furnished by the Research Data Group.

(Back to Index)

(Back to Index)

ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF
RESOURCE CAPITAL CORP AND SUBSIDIARIES

The following selected financial and operating information should be read in conjunction with Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements, including the notes, included elsewhere herein (in thousands, except share data).

	As of and for the Years Ended December 31,				
	2011	2010	2009	2008	2007
Consolidated Statement of Operations Data:					
REVENUES:					
Interest income	$ 110,194	$ 103,911	$ 97,593	$ 134,341	$ 176,995
Interest expense	30,431	36,466	45,427	79,619	121,564
Net interest income	79,763	67,445	52,166	54,722	55,431
Other revenues	14,400	–	–	–	–
Total revenues	94,163	67,445	52,166	54,722	55,431
OPERATING EXPENSES	41,345	32,608	16,059	12,438	13,415
	52,818	34,837	36,107	42,284	42,016
OTHER REVENUES (EXPENSES):					
Net impairment losses recognized in earnings	(6,898)	(26,804)	(13,471)	–	(26,277)
Net realized gain (loss) on investment securities available-for-sale and loans	2,622	4,821	1,890	(1,637)	(15,098)
Net realized and unrealized gain on investments securities-trading	858	14,791	–	–	–
Gain on deconsolidation	–	–	–	–	14,259
Provision for loan and lease losses	(13,896)	(43,321)	(61,383)	(46,160)	(6,211)
Gain on the extinguishment of debt	3,875	34,610	44,546	1,750	–
Gain on the settlement of loan	–	–	–	574	–
Other (expense) income	(1,663)	513	(1,350)	115	201
Total other (expense)	(15,102)	(15,390)	(29,768)	(45,358)	(33,126)
NET INCOME (LOSS)	$ 37,716	$ 19,447	$ 6,339	$ (3,074)	$ 8,890
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 43,116	$ 29,488	$ 51,991	$ 14,583	$ 6,029
Restricted cash	142,806	168,192	85,125	60,394	119,482
Investment securities trading	38,673	17,723	–	–	–

Investment securities available-for-sale, pledged as collateral, at fair value	153,366	57,998	39,304	22,466	65,464
Investment securities available-for-sale, at fair value	4,678	5,962	5,238	6,794	–
Investment securities held-to-maturity, pledged as collateral	–	29,036	31,401	28,157	18,517
Property available-for-sale	2,980	4,444	–	–	–
Investment in real estate	48,027	–	–	–	–
Loans, pledged as collateral and net of allowances of $27.5 million, $34.2 million, $47.1 million, $43.9 million and $0	1,772,063	1,443,271	1,557,757	1,684,622	1,748,122
Loans held for sale	3,154	28,593	8,050	–	–
Lease receivables, net of allowances of $0 $70,000, $1.1 million, $450,000, and $293,000, net of unearned income	–	109,612	927	104,015	95,030
Investments in unconsolidated entities	47,899	6,791	3,605	1,548	1,805
Intangible assets	19,813	–	–	–	–
Total assets	2,299,627	1,934,200	1,791,404	1,936,031	2,072,148
Borrowings	1,808,986	1,543,251	1,534,874	1,699,763	1,760,969
Total liabilities	1,869,937	1,585,874	1,562,574	1,749,726	1,800,542
Total stockholders’ equity	429,690	348,326	228,830	186,305	271,606

(Back to Index)

(Back to Index)

	As of and for the Years Ended December 31,				
	2011	2010	2009	2008	2007
Per Share Data:					
Dividends declared per common share	$ 1.00	$ 1.00	$ 1.15	$ 1.60	$ 1.62
Net income (loss) per share – basic	$ 0.54	$ 0.41	$ 0.25	$ (0.12)	$ 0.36
Net income (loss) per share – diluted	$ 0.53	$ 0.41	$ 0.25	$ (0.12)	$ 0.36
Weighted average number of shares outstanding - basic	70,410,131	47,715,082	25,205,403	24,757,386	24,610,468
Weighted average number of shares outstanding - diluted	70,809,088	47,907,281	25,355,821	24,757,386	24,860,184

ITEM 7. 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 report. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward looking statements. Please see "Forward-Looking Statements" and "Risk Factors" for a discussion of certain risks, uncertainties and assumptions associated with those statements.

Overview

We are a specialty finance company that focuses primarily on CRE assets, CMBS and commercial finance assets. We are organized and conduct our operations to qualify as a 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 have financed 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 have sought to mitigate interest rate risk through derivative instruments.

We are externally managed by Resource Capital Manager, Inc., a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ: REXI), or Resource America, a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, commercial finance and financial fund management operating segments. As of December 31, 2011, Resource America managed approximately $13.3 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

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 from hedging interest rate risks. We generate revenues from the interest and fees we earn on our whole loans, A notes, B notes, mezzanine debt, commercial mortgage-backed securities, or

CMBS, real estate rental income, bank loans, management of externally originated bank loans, other asset-backed securities, or ABS, structured note investments and an investment in an equipment leasing business. Historically, we have used a substantial amount of leverage to enhance our returns and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments is a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. In our bank loans, CMBS and ABS portfolios, we historically have used warehouse facilities as a short-term financing source and collateralized debt obligations, or CDOs, and, to a lesser extent, other term financing as long-term financing sources. In our commercial real estate loan portfolio, we historically have used repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as long-term financing sources. Our other term financing has consisted of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs, depending upon market conditions and credit availability.

Although economic conditions in the United States have had some modest improvements, ongoing conditions in real estate and credit markets continue to impact both us and a number of our commercial real estate borrowers. We have entered into loan modifications with 26 of our commercial real estate loans, including 16 in 2011. We have increased our allowance for loan and lease losses to reflect the effect of these conditions on our borrowers and have recorded both temporary and other than temporary impairments in the market valuation of the CMBS and ABS in our investment portfolio, although as a result of the modest improvement in the United States economy and the strengthened financial condition of our borrowers, the aggregate amount of these changes were substantially less than in 2010. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2011, we cannot assure you that further impairments will not occur or that our assets will otherwise not be adversely affected by market conditions.

(Back to Index)

(Back to Index)

Prior to mid-2010 events occurring in the credit markets impacted our financing and investing strategies and, as a result, our ability to originate new investments and to grow. The market for securities issued by new securitizations collateralized by assets similar to those in our investment portfolio had largely disappeared until mid-2010. During 2011 and 2010, however, we began to see a loosening of previously frozen credit markets and in May 2010 we closed a new $120.0 million securitization on our equipment leasing portfolio. In February 2011, we entered into a $100.0 million, two year term facility with Wells Fargo to purchase CMBS. In June 2011 we obtained a warehouse facility to finance the purchase of bank loans with Citibank N.A. through Apidos CLO VIII, Ltd, or Apidos CLO VIII. More recently, we entered into a $10.0 million revolving credit facility with The Bancorp Bank, a related party and in February 2012, we entered into a $150.0 million master repurchase and securities agreement with Wells Fargo Bank, National Association to finance the origination of commercial real estate loans. We continue to engage in discussions with potential financing sources about providing commercial real estate term financing to augment and cautiously grow our loan origination platform. We caution investors that even if credit through these markets becomes more available, we may not be able to obtain economically favorable terms.

As economic conditions improve and we proceed to access the credit markets on acceptable terms, our principal strategies are to manage our liquidity and originate new assets primarily through capital recycling as loan payoffs and paydowns occur and through existing capacities within our completed securitizations and available credit facilities. The following is a summary of repayments we received during the year ended December 31, 2011:

$10.0 million of commercial real estate loans paid off;

$33.1 million of commercial real estate loan principal repayments;

$69.7 million at commercial real estate loan sale proceeds;

$380.7 million of bank loan principal repayments; and

$142.3 million of bank loan sale proceeds.

We have used recycled capital in our bank loan CLO structures to make new investments at discounts to par. We expect that the reinvested capital and related discounts will produce additional income as the discounts are accreted into interest income. In addition, the purchase of these investments at discounts allows us to build collateral in the CLO structures since we receive credit in these structures for these investments at par. During 2011, we purchased bank loans which had $827.2 million par value at a discount to par of 3.0%. From the net discounts of approximately $25.0 million, and accounting for $2.4 million of net discount recognized due to payoffs and paydowns during the year 2011, we expect to recognize income of approximately $6.3 million in our bank loan CLO portfolio in 2012.

As a result of the success of our bank loan portfolio in 2011 and slower than anticipated commercial real estate loan origination, compliance with the 75% gross income test for REIT qualification (where we are required to generate a minimum of 75% of our gross income from qualifying real estate income, as defined in the Internal Revenue Code) became more difficult. As a result, we took steps during the fourth quarter of 2011 to enable us to continue to satisfy the 75% gross income test. First, we reduced our non-real estate and thus, non-qualifying income from the Apidos I and Apidos III CLOs through the election of RCC Commercial to be treated as a taxable REIT subsidiary beginning on October 27, 2011 and ending on December 31, 2011. Second, we further reduced our non real estate income by selling multiple positions in Apidos Cinco CLO in November 2011, at substantial losses.

In 2012 and thereafter, we expect to be able to satisfy the 75% gross income test through growth in our investments in commercial real estate or CRE, loans and CRE equity positions, a process we began in 2011. These loans will generate a full year of gross real estate and, thus, qualifying income in 2012. We expect to originate additional CRE loans and expect to be fully-invested in our second CRE CDO by the second quarter of 2012, which will generate substantial gross real estate interest income and thus augment, qualifying income. Additionally, we acquired in 2011, and expect to continue to acquire in 2012, equity positions in commercial real estate that we expect will generate substantial gross rental income that also qualifies for the 75% gross income test.

During 2010, we invested $5.0 million through Resource TRS, our taxable REIT subsidiary, in structured finance vehicles, principally CLO equity, which we have classified as trading securities. Because of the success of that new investment, we committed an additional $8.0 million through February 2011. Beginning in October 2010 through December 2011, we have underwritten 13 new CRE loans for a total of $159.6 million. We also purchased 18 newly underwritten CMBS for $72.8 million beginning in February 2011 through December 2011 financed with the Wells Fargo facility. In 2011, we added to our preferred stock investment in LEAF Commercial Capital, Inc., or LCC, a recently recapitalized equipment leasing enterprise associated with our Manager, and held a $36.3 million investment in LCC at December 31, 2011. In February 2011, we purchased a company that manages $1.9 billion of bank loan assets and are entitled to collect senior, subordinated and incentive management fees. In October 2011, we closed Apidos CLO VIII, a $350.0 million CLO transaction and issued $317.6 million of senior notes and $34.7 million of subordinated notes in conjunction with the closing. Apidos CLO VIII provides financing for bank loans and we own a 43% interest in the equity of the CLO. Due to these recent investments, our increased ability to access credit markets and our ability to invest a significant portion of our available unrestricted and restricted cash balances during 2012, we expect to modestly increase our net interest income in 2012. However, because we believe that economic conditions in the United States are fragile, and could be significantly harmed by occurrences over which we have no control, we cannot assure you that we will be able to meet our expectations, or that we will not experience net interest income reductions.

(Back to Index)

(Back to Index)

As of December 31, 2011, we had invested 63.0% of our portfolio in CRE assets, 30.6% in commercial bank loans and 6.4% in other investments. As of December 31, 2010, we had invested 76.7% of our portfolio in CRE assets, 18.4% in commercial bank loans, 3.1% in lease receivables and 1.8% in structured notes.

Results of Operations

Our net income for the year ended December 31, 2011 was $37.7 million, or $0.54 per share-basic ($0.53 per share-diluted), as compared to net income for the year ended December 31, 2010 of $19.4 million, or $0.41 per share (basic and diluted) and as compared to net income of $6.3 million, or $0.25 per share (basic and diluted), for the year ended December 31, 2009.

Interest Income

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

	Years Ended December 31,		
	2011	2010	2009
Interest income:			
Interest income from loans:			
Bank loans	$54,833	$44,828	$37,064
Commercial real estate loans	31,906	32,866	48,793
Total interest income from loans	86,739	77,694	85,857
Interest income from securities:			
CMBS-private placement	9,610	9,768	5,404
RMBS	1,521	–	–
ABS	1,613	1,466	1,807
Other ABS	–	200	14
Total interest income from securities	12,744	11,434	7,225
Leasing	–	11,306	4,336
Interest income – other:			
Preference payments on structured notes (1)	10,432	3,112	–
Temporary investment in over-night repurchase agreements	279	365	175
Total interest income – other	10,711	3,477	175
Total interest income	$110,194	$103,911	$97,593

(1) Yields on these quarterly payers reflect payments for full distribution periods and in some cases we owned the position for a portion of the year.

	Year Ended December 31, 2011 Weighted Average		Year Ended December 31, 2010 Weighted Average		Year Ended December 31, 2009 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance

Interest income:								
Interest income from loans:								
Bank loans	5.63%	$	963,427	4.91%	$	907,582	4.01%	$ 943,854
Commercial real estate loans	4.95%	$	646,121	4.68%	$	694,153	6.12%	$ 785,380
Interest income from securities:								
CMBS-private placement	5.53%	$	170,605	6.9%	$	140,377	5.90%	$ 90,784
RMBS	2.93%	$	51,844	N/A		N/A	N/A	N/A
ABS	4.85%	$	32,897	4.12%	$	35,295	5.28%	$ 33,249
Other ABS	N/A		N/A	8.71%	$	2,300	4.98%	$ 281
Leasing	N/A		N/A	15.61%	$	75,008	6.88%	$ 65,300
Preference payments on structured notes	32.95%	$	31,663	37.69%	$	8,257	N/A	N/A

(Back to Index)

(Back to Index)

The following tables summarize interest income for the years indicated (in thousands, except percentages):

Type of Security	Coupon Interest	Unamortized (Discount) Premium	Net Amortization /Accretion	Interest Income	Fee Income	Total
Year Ended December 31, 2011:						
Bank loans	3.76%	$ (31,787)	$ 15,539	$ 36,932	$ 2,362	$ 54,833
Commercial real estate loans	4.64%	$ (160)	12	30,249	1,645	31,906
Total interest income from loans			15,551	67,181	4,007	86,739
CMBS-private placement	3.60%	$ (13,238)	3,174	6,436	–	9,610
RMBS			–	1,521	–	1,521
ABS	2.60%	$ (3,812)	524	1,089	–	1,613
Other ABS			–	–	–	–
Total interest income from securities			3,698	9,046	–	12,744
Leasing			–	–	–	–
Preference payments on structured notes			–	10,432	–	10,432
Other			–	279	–	279
Total interest income – other			–	10,711	–	10,711
Total interest income			$ 19,249	$ 86,938	$ 4,007	$ 110,194
Year Ended December 31, 2010:						
Bank loans	3.245	$ (26,568)	$ 13,919	$ 30,051	$ 858	$ 44,828
Commercial real estate loans	4.50%	$ (171)	(15)	32,163	718	32,866
Total interest income from loans			13,904	62,214	1,576	77,694
CMBS-private placement	3.795	$ (20,932)	4,359	5,409	–	9,768
Securities held-to-maturity	2.45%	$ (2,844)	409	1,057	–	1,466
Other ABS			–	200	–	200
Total interest income from securities			4,768	6,666	–	11,434
Leasing			–	11,306	–	11,306
Preference payments on structured notes			–	3,112	–	3,112
Other			–	365	–	365
Total interest income – other			–	3,477	–	3,477

Total interest income			$ 18,672	$ 83,663	$ 1,576	$ 103,911
Year Ended December 31, 2009:						
Bank loans	3.13%	$ (27,682)	$ 6,955	$ 28,815	$ 1,294	$ 37,064
Commercial real estate loans	5.96%	$ (30)	66	48,094	633	48,793
Total interest income from loans			7,021	76,909	1,927	85,857
CMBS-private placement	4.28%	$ (29,030)	1,460	3,944	–	5,404
Securities held-to-maturity	4.54%	$ (3,103)	238	1,569	–	1,807
Other ABS			–	14	–	14
Total interest income from securities			1,698	5,527	–	7,225
Leasing			–	4,336	–	4,336
Preference payments on structured notes			–	–	–	–
Other			–	175	–	175
Total interest income – other			–	175	–	175
Total interest income			$ 8,719	$ 86,947	$ 1,927	$ 97,593

(Back to Index)

(Back to Index)

Year Ended December 31, 2011 as compared to Year Ended December 31, 2010

Aggregate interest income increased $6.3 million (6%) to $110.2 million for the year ended December 31, 2011, from $103.9 million for the year ended December 31, 2010. We attribute this increase to the following:

Interest Income from Loans. Aggregate interest income from loans increased $9.0 million (12%) to $86.7 million for the year ended December 31, 2011 from $77.7 million for the year ended December 31, 2010.

Interest income on bank loans increased $10.0 million (22%) to $54.8 million for the year ended December 31, 2011 from $44.8 million for the year ended December 31, 2010. The increase for the year ended December 31, 2011 resulted primarily from the following:

- an increase in the weighted average balance of $55.8 million to $963.4 million for the year ended December 31, 2011 from $907.6 million for the year ended December 31, 2010, principally as a result of our new CLO, for which we began acquiring assets in July 2011;

- an increase in the weighted average rate to 3.76% on bank loans for the year ended December 31, 2011 from 3.24% for the year ended December 31, 2010 primarily because of the increase in spread on these assets; and

- timing of paydowns and payoffs which cause us to accelerate discounts into income. The bank loan market experienced increased prepayment speeds beginning in the third quarter of 2010 which have slowed considerably since the second quarter of 2011.

The interest income on bank loans was partially offset by CRE loans which produced $31.9 million of interest income for the year ended December 31, 2011 as compared to $32.9 million for the year ended December 31, 2010, a decrease of $960,000 (3%). This decrease is primarily related to the decrease of $48.0 million in weighted average balance of loans to $646.1 million for the year ended December 31, 2011 from $694.2 million for the year ended December 31, 2010 as a result of the sale of $131.6 million (par value), conversions of loans to equity investments in real estate of $39.6 million (par value), and the payoff and paydown of $14.4 million (par value), from April 2010 through December 2011. We began to reinvest these proceeds, classified as restricted cash on our balance sheet, during the fourth quarter of 2010, with the majority of it being reinvested during the second and third quarters of 2011.

Interest Income from Securities. Aggregate interest income from securities increased $1.3 million (11%) to $12.7 million for the year ended December 31, 2011 from $11.4 million for the year ended December 31, 2010. The increase in interest income from securities resulted principally from the following:

Interest income from RMBS was $1.5 million for the year ended December 31, 2011 and was principally the result of RMBS positions purchased as part of our trading portfolio beginning in the fourth quarter of 2010. We had no such interest income for the year ended December 31, 2010.

The increase in interest income from RMBS was partially offset by a decrease in interest income from CMBS-private placement of $158,000 (2%) to $9.6 million for the year ended December 31, 2011 from $9.8 million for the year ended December 31, 2010. We attribute the decrease to a decrease in the weighted average yield to 5.53% for the year ended December 31, 2011 from 6.97% for the year ended December 31, 2010, primarily as a result of a decrease of $1.2 million in accretion income to $3.2 million during the year ended December 31, 2011 from $4.4 million during the year ended December 31, 2010. The decrease in accretion income resulted from the impairment of $42.1 million of CMBS, at par, and with associated discounts of $3.1 million during the second quarter of 2011 and the elimination of accretion of those discounts into income. We no longer recognize discount accretion after we recognize impairment on securities.

The decrease in weighted average yield was partially offset by an increase in the weighted average balance of assets of $30.2 million to $170.6 million for the year ended December 31, 2011 from $140.4 million for the year ended December 31, 2010 principally as a result of the purchase of $102.4 million par value of assets during the year ended December 31, 2011, and during the last half of the year ended December 31, 2010, primarily through a new financing facility.

Interest Income – Leasing. Our equipment leasing portfolio generated $11.3 million of interest income for the year ended December 31, 2010. There was no such income for the year ended December 31, 2011 as a result of the transfer of our leasing portfolio to LCC as part of our preferred equity investment in LCC. Our restructured investment in LCC, however, generated dividend income, as discussed in "- Other Revenue."

Interest Income – Other. Aggregate interest income-other increased $7.2 million (208%) to $10.7 million for the year ended December 31, 2011, as compared to $3.5 million for the year ended December 31, 2010 principally from preference payments on structured notes which generated $10.4 million for the year ended December 31, 2011 as compared to $3.1 million for the year ended December 31, 2010. We began purchasing assets for this portfolio in June 2010. Payments on these positions vary from period to period and are based on cash flows from the underlying assets rather than on a contractual interest rate.

(Back to Index)

(Back to Index)

Year Ended December 31, 2010 as compared to Year Ended December 31, 2009

Aggregate interest income increased $6.3 million (6%) to $103.9 million for the year ended December 31, 2010, from $97.6 million for the year ended December 31, 2009. We attribute this increase to the following:

Interest income from Loans. Aggregate interest income from loans decreased $8.2 million (10%) to $77.7 million for the year ended December 31, 2010 from $85.9 million for the year ended December 31, 2009.

Commercial real estate loans produced $32.9 million of interest income for the year ended December 31, 2010 as compared to $48.8 million for the year ended December 31, 2009, a decrease of $15.9 million (33%). This decrease resulted from the following:

a decrease in the weighted average balance of assets of $91.2 million to $694.2 million for the year ended December 31, 2010 from $785.4 million for the year ended December 31, 2009 primarily as a result of payoffs and paydowns and to a lesser extent write-offs of impaired loans; and

a decrease in the weighted average yield on our assets to 4.68% for the year ended December 31, 2010 from 6.12% for the year ended December 31, 2009 primarily due to decreases in LIBOR floors, which is a reference index for the rates payable on these loans, from loan modifications during 2009 and 2010. There were $310.9 million of loans with a weighted average LIBOR floor of 2.37% as of December 31, 2009 that decreased to $157.4 million of loans with a weighted average LIBOR floor of 2.24% as of December 31, 2010.

The decrease in interest income from commercial real estate loans was partially offset by an increase in interest income on bank loans which generated $44.8 million of interest income for the year ended December 31, 2010 as compared to $37.1 million for the year ended December 31, 2009, an increase of $7.8 million (21%). This increase resulted primarily from an increase in the weighted average yield earned by our bank loans to 4.91% for the year ended December 31, 2010 from 4.01% for the year ended December 31, 2009. This was principally a result of an increase in accretion income to $13.9 million for the year ended December 31, 2010 as compared to $7.0 million for the year ended December 31, 2009. The increase in accretion income is the result of the purchase of $608.8 million of bank loans at discounts during 2009 and 2010 and the accretion of those discounts into income. These discounted loan purchases are made as we reinvest the proceeds from loan payoffs from our borrowers and from the loans we have sold, typically for credit reasons.

The increase in bank loan accretion income was partially offset by a decrease in the weighted average balance on these loans of $36.3 million to $907.6 million for the year ended December 31, 2010, from $943.9 million for the year ended December 31, 2009, as a result of write-offs of several loans in the last quarter of 2009 and the first quarter of 2010 as well as the timing of when loans were sold or paid down and those proceeds reinvested.

Interest Income from Securities. Aggregate interest income from securities increased $4.2 million (58%) to $11.4 million for the year ended December 31, 2010 from $7.2 million for the year ended December 31, 2009. The increase in interest income from securities resulted principally from the following:

Interest income from CMBS-private placement increased $4.4 million (81%) to $9.8 million for the year ended December 31, 2010 from $5.4 million for the year ended December 31, 2009. We attribute the increase primarily to the following:

an increase in the weighted average balance of assets of $49.6 million to $140.4 million for the year ended December 31, 2010 from $90.8 million for the year ended December 31, 2009, principally as a result of the purchase of $37.1 million par value of assets during the year ended December 31, 2010, and during the last half of the year ended December 31, 2009. This was partially offset by the impairment and subsequent non-payment of $24.8 million par value of assets during the fourth quarter of 2009 and in 2010; and

an increase in the weighted average yield to 6.97% for the year ended December 31, 2010 from 5.90% for the year ended December 31, 2009 primarily as a result of an increase of $2.9 million in accretion income to $4.4 million during the year ended December 31, 2010 from $1.5 million during the year ended December 31, 2009. The increase in accretion income resulted from the purchase of $91.9 million of CMBS at discounts during the last quarter of 2009 and during 2010 and accretion of those discounts into income. We make these discounted security purchases as we reinvest the proceeds from the loan and security payoffs from our borrowers and from the loans and securities we have sold, typically for credit reasons.

Interest Income – Leasing. Our equipment leasing portfolio generated $11.3 million of interest income for the year ended December 31, 2010 as compared to $4.3 million for the year ended December 31, 2009, an increase of $7.0 million (161%). This increase for the year ended December 31, 2010 was due to the acquisition of $120.0 million in new leases during the year ended December 31, 2010 financed by a new securitization. The increase for the year ended December 31, 2010 was partially offset by the sale of the majority of our legacy leasing portfolio, at par, as of June 30, 2009. The legacy portfolio was sold to reduce our leverage and exposure to certain lease receivables that were underwritten under older, more aggressive credit standards. In May 2010, we acquired a new leasing portfolio which was underwritten with stricter credit standards, using longer term debt that gave us a prepayment option upon meeting specific terms.

(Back to Index)

(Back to Index)

Interest Income – Other. Aggregate interest income-other increased $3.3 million (1,887%) to $3.5 million for the year ended December 31, 2010, as compared to $175,000 for the year ended December 31, 2009 principally from preference payments on structured notes which generated $3.1 million for the year ended December 31, 2010. We had no investment in these securities during the year ended December 31, 2009. These payments vary from period to period and are based on cash flows from the underlying assets rather than on a contractual interest rate.

Interest Expense

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

	Years Ended December 31,		
	2011	2010	2009
Interest expense:			
Bank loans	$11,348	$9,573	$15,394
Commercial real estate loans	6,397	8,068	11,072
CMBS-private placement	651	–	–
Leasing	–	5,737	2,143
Hedging instruments	8,415	9,438	13,516
General	3,620	3,650	3,302
Total interest expense	$30,431	$36,466	$45,427

	Year Ended December 31, 2011 Weighted Average		Year Ended December 31, 2010 Weighted Average		Year Ended December 31, 2009 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest expense:						
Bank loans	1.16%	$ 981,000	1.04%	$ 906,000	1.68%	$ 906,000
Commercial real estate loans	1.28%	$ 499,416	1.46%	$ 543,345	1.70%	$ 649,258
CMBS-private placement	2.44%	$ 25,721	N/A	$ –	N/A	N/A
Leasing	N/A	N/A	8.81%	$ 65,176	4.42%	$ 44,388
Hedging instruments	5.27%	$ 160,132	4.90%	$ 181,821	4.76%	$ 272,720
General	7.02%	$ 51,548	7.47%	$ 50,000	6.36%	$ 50,000

Year Ended December 31, 2011 as compared to Year Ended December 31, 2010

Aggregate interest expense decreased $6.1 million (17%) to $30.4 million for the year ended December 31, 2011, from $36.5 million for the year ended December 31, 2010. We attribute this decrease to the following:

Interest expense on bank loans was $11.3 million for the year ended December 31, 2011, as compared to $9.6 million for the year ended December 31, 2010, an increase of $1.7 million (19%). This increase resulted primarily from the following:

an increase in the weighted average balance of the related financings of $75.0 million to $981.0 million for the year ended December 31, 2011 as compared to $906.0 million for the year ended December 31, 2010 due to the financing of new asset purchases primarily financed by our warehouse line for a new CLO which closed in October 2011.

an increase in the weighted average rate to 1.16% for the year ended December 31, 2011 from 1.04% for the year ended December 31, 2010 primarily as a result of the increase in LIBOR, a reference index for the rates payable on most of these financings.

Interest expense on commercial real estate loans was $6.4 million for the year ended December 31, 2011, as compared to $8.1 million for the year ended December 31, 2010, a decrease of $1.7 million (21%). This decrease resulted primarily from the following:

a decrease in the weighted average yield due to decreased amortization of financing costs as a result of fewer CDO note repurchases during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

a decrease in the weighted average balance of the related financings of $43.9 million to $499.4 million for the year ended December 31, 2011 as compared to $543.3 million for the year ended December 31, 2010, primarily due to the repurchase of $10.0 million and $91.4 million of CDO notes in 2011 and 2010, respectively. In addition, the reinvestment period of one of our CDOs ended in September 2011 and, consequently, the subsequent paydowns received on loans held by that CDO were used to paydown $23.0 million of notes issued by the CDO.

(Back to Index)

(Back to Index)

Interest expense on CMBS-private placement was $651,000 for the year ended December 31, 2011. There was no such expense for the year ended December 31, 2010. The increase is due entirely to a Master Repurchase Agreement with Wells Fargo Bank, National Association that we entered into in February 2011 to use in acquiring highly-rated CMBS.

Interest expense with respect to our leasing portfolio was $5.7 million for the year ended December 31, 2010. There was no such expense for the year ended December 31, 2011 as a result of the transfer of our leasing portfolio to LCC in exchange for a preferred equity interest in LCC and the simultaneous transfer of the related debt.

Interest expense on hedging instruments decreased $1.0 million (11%) to $8.4 million for the year ended December 31, 2011 as compared to $9.4 million for the year ended December 31, 2010. The decrease in the hedging expense was primarily due to a change in the composition of interest rate swaps we held on our books during the year ended December 31, 2011 as compared to 2010 as a result of the maturities of the hedges related to our CRE portfolio in 2011 and 2010 and the purchase of new hedges relating to securities we purchased using the Wells Fargo repurchase facility in 2011.

Year Ended December 31, 2010 as compared to Year Ended December 31, 2009

Aggregate interest expense decreased $8.9 million (20%) to $36.5 million for the year ended December 31, 2010, from $45.4 million for the year ended December 31, 2009. We attribute this decrease to the following:

Interest expense on bank loans was $9.6 million for the year ended December 31, 2010, as compared to $15.4 million for the year ended December 31, 2009, a decrease of $5.8 million (38%). This decrease resulted primarily from a decrease in the weighted average yield on this debt to 1.04% for the year ended December 31, 2010 from 1.68% for the year ended December 31, 2009 as a result of the decrease in LIBOR which is a reference index for the rates payable on most of these notes.

Interest expense on commercial real estate loans was $8.1 million for the year ended December 31, 2010, as compared to $11.1 million for the year ended December 31, 2009, a decrease of $3.0 million (27%). This decrease resulted primarily from the following:

- a decrease in the weighted average balance of the related financings of $106.0 million to $543.3 million for the year ended December 31, 2010 as compared to $649.3 million for the year ended December 31, 2009, primarily due to the repurchase of $146.9 million of the CDO notes in 2009 and 2010; and

- a decrease in the weighted average yield on our financings to 1.46% for the year ended December 31, 2010 from 1.70% for the year ended December 31, 2009 primarily due to the decrease in LIBOR which is a reference index for the rates payable on most of the CDO notes.

Interest expense on our equipment leasing portfolio was $5.7 million for the year ended December 31, 2010, as compared to $2.1 million for the year ended December 31, 2009, an increase of $3.6 million (168%). The increase is the result of a new securitization entered into in April 2010 in conjunction with our acquisition of $120.0 million of new leases. The increase was partially offset by a decrease in interest expense related to our legacy leasing portfolio when the debt was transferred to Resource America at the time the portfolio was sold on June 30, 2009.

Hedging instruments interest expense was $9.4 million for the year ended December 31, 2010, as compared to $13.5 million for the year ended December 31, 2009, a decrease of $4.1 million (30%). This decrease was primarily from the sale of our legacy leasing portfolio, at par, in June 2009 which also resulted in the transfer of the related interest rate hedges and a decrease in that associated cost.

Other Revenue

The following table sets forth information relating to our other revenue incurred for the periods presented (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Other revenue:			
Rental income	$3,656	$–	$–
Dividend income	2,955	–	–
Fee income	7,789	–	–
Total other revenue	$14,400	$–	$–

Rental income was $3.7 million for the year ended December 31, 2011 and is related to our property available-for-sale and our investments in real estate during 2011.

(Back to Index)

(Back to Index)

We received dividend income of $3.0 million for the year ended December 31, 2011 from our preferred equity investment in LCC. There was no such investment at December 31, 2010. On November 16, 2011, we entered into an agreement whereby we exchanged our old preferred interest in LCC for a new preferred interest in LCC. Our resulting interest will be accounted for under the equity method subsequent to November 16, 2011 and therefore, we will no longer record dividend income.

We generated management fee income of $7.8 million for the year ended December 31, 2011, which is related to our February 2011 acquisition of a company that manages bank loan assets that entitles us to collect senior, subordinated, and incentive fees related to five collateralized loan obligation issuers, or CLOs. We had no such investment or income for the year ended December 31, 2010.

Operating Expenses

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

	Years Ended December 31,		
	2011	2010	2009
Operating expenses:			
Management fees-related party	$11,022	$13,216	$8,363
Equity compensation-related party	2,526	2,221	1,240
Professional services	3,791	3,627	3,866
Insurance	658	759	828
Rental operating expense	2,743	46	–
General and administrative	3,950	3,015	1,764
Depreciation on operating leases	–	4,003	–
Depreciation and amortization	4,619	–	–
Income tax expense (benefit)	12,036	5,721	(2)
Total operating expenses	$41,345	$32,608	$16,059

Year Ended December 31, 2011 as compared to the Year Ended December 31, 2010

Management fees – related party decreased $2.2 million (17%) to $11.0 million for the year ended December 31, 2011 as compared to $13.2 million for the year ended December 31, 2010. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

Base management fees increased by $1.6 million (29%) to $7.0 million for the year ended December 31, 2011 as compared to $5.4 million for the year ended December 31, 2010. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $83.6 million of net proceeds from the sales of common stock through our Dividend Reinvestment and Stock Purchase Plan or DRIP, during the years ended December 31, 2011 as well as the receipt of $46.6 million from the proceeds of our March 2011 common stock offering.

Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings over a variable base rate, decreased $2.7 million (61%) to $1.7 million for the year ended December 31, 2011 from $4.4 million for the year ended December 31, 2010. The fees for the year ended December 31, 2010 were driven by $34.6 million of gains on the extinguishment of debt as compared to $3.9 million of gains on the extinguishment of debt for the year ended December 31, 2011. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.

Incentive management fees related to our structured finance manager decreased by $1.1 million to $2.3 million for the year ended December 31, 2011 from $3.4 million for the year ended December 31, 2010. The decrease in fees is primarily related to the decline in the performance of this portfolio at December 31, 2011.

Equity compensation – related party increased $305,000 (14%) to $2.5 million for the year ended December 31, 2011 as compared to $2.2 million for the year ended December 31, 2010. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to several employees of Resource America who provide investment management services to us through our Manager. The increase in expense was primarily the result of the issuance of new grants during 2011. The increase was partially offset by our quarterly remeasurement of the value of unvested stock.

Rental operating expense increased $2.7 million to $2.7 million for the year ended December 31, 2011 as compared to $46,000 for the year ended December 31, 2010 and is related to property available-for-sale and investments in real estate, which increase through several acquisitions in 2011. There was one such asset at December 31, 2010 compared to four at December 31, 2011 due to the acquisition of three properties during the year ended December 31, 2011.

(Back to Index)

(Back to Index)

General and administrative expense increased $935,000 (31%) to $4.0 million for the year ended December 31, 2011 from $3.1 million for the year ended December 31, 2010. The increase is primarily the result of the following:

an increase of $257,000 related to transaction costs in connection with our acquisition of an investment in real estate in September 2011;

increase of $194,000 related to franchise taxes because of increased profitability and equity in our taxable REIT subsidiaries;

an increase of $168,000 related to our agreement to reimburse Resource America for the wages, salary and benefits of our Chairman, our Chief Financial Officer, several accounting professionals, and 50% of the salary and benefits of a director of investor relations.

Depreciation on operating leases was $4.0 million for the year ended December 31, 2010. There was no such expense for the year ended December 31, 2011. The expense is related to the depreciation of the assets in the leasing securitization we acquired in May 2010 which were converted to a preferred equity investment in LCC in January 2011.

Depreciation and amortization was $4.6 million for the year ended December 31, 2011 and is related to our acquisition of Resource Capital Asset Management, or RCAM, in February 2011 and our acquisition of real estate in the second and third quarters of 2011. There were no such investments during the year ended December 31, 2010.

Income tax expense increased $6.3 million (110%) to $12.0 million for the year ended December 31, 2011 as compared to $5.7 million for the year ended December 31, 2010, of which $4.6 million is due to two of our legacy CLO structures (Apidos I and Apidos III) being taxable during the fourth quarter of 2011, which we do not expect to continue into 2012. The balance of the increased tax expense is primarily due to increased profitability in our trading portfolio. We expect our effective tax rate on these taxable REIT subsidiaries to be between 45% and 48% for the year ended December 31, 2012.

Year Ended December 31, 2010 as compared to the Year Ended December 31, 2009

Management fees – related party increased $4.9 million (58%) to $13.2 million for the year ended December 31, 2010 as compared to $8.4 million for the year ended December 31, 2009. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

Base management fees increased by $1.6 million (43%) to $5.4 million for the year ended December 31, 2010 as compared to $3.8 million for the year ended December 31, 2009. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $76.8 million of net proceeds from the sales of common stock through our DRIP during the year ended December 31, 2010 as well as the receipt of $42.4 million from the proceeds of our May 2010 common stock offering.

Incentive management fees which are based upon the excess of adjusted operating earnings over a variable base rate, increased $2.8 million to $7.4 million for the year ended December 31, 2010 from $4.6 million for the year ended December 31, 2009 primarily as a result of income from our structured finance portfolio. There was no such portfolio and therefore no such income during the year ended December 31, 2009.

Management fees also include fees of $438,000 for the year ended December 31, 2010 to our structured finance manager. There was no such fee or portfolio in the prior year.

Equity compensation – related party increased $981,000 (79%) to $2.2 million for the year ended December 31, 2010 as compared to $1.2 million for the year ended December 31, 2009. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to several employees of Resource America who provide investment management services to us through our Manager. The increase in expense was primarily the result of an increase in our stock price and its impact on our quarterly remeasurement of the value of unvested stock and options as well as issuances of new grants during the year.

Professional services decreased $239,000 (6%) to $3.6 million for the year ended December 31, 2010 as compared to $3.9 million for the year ended December 31, 2009 primarily due to a decrease of $399,000 of servicing fees related to our legacy leasing portfolio which was sold in June 2009.

Depreciation on operating leases was $4.0 million for the year ended December 31, 2010 as compared to $0 for the year ended December 31, 2009 and is related to the $120.0 million of new leases we acquired in April 2010. There was no such portfolio or expense during the year ended December 31, 2009.

General and administrative expense increased $1.3 million (74%) to $3.1 million for the year ended December 31, 2010 from $1.8 million for the year ended December 31, 2009. $1.1 million of the increase is related to our agreement to reimburse Resource America for the wages, salary and benefits of our Chief Financial Officer, several accounting professionals and 50% of the salary and benefits of a director of investor relations. The reimbursements began in October 2009. In addition, we began reimbursing Resource America for wages, salary and benefits of our Chairman in February 2010 and an additional accounting professional in November 2010.

(Back to Index)

(Back to Index)

Income tax expense increased $5.7 million to an expense of $5.7 million for the year ended December 31, 2010, as compared to a benefit of $2,000 for the year ended December 31, 2009 due to higher pre-tax income for the year ended December 31, 2010. In addition, the benefit incurred for the year ended December 31, 2009, was relatively low when compared to pre-tax loss due to the fact that a valuation allowance was established against certain deferred tax assets that were deemed to not be realizable at that time. The valuation has been removed for the year ended December 31, 2010 due to a change in circumstances regarding the ability to realize the deferred tax assets.

Other (Expense)/Income

The following table sets forth information relating to our other income (expense) incurred for the periods presented (in thousands):

	Years Ended December 31,		
Other (Expense) Revenue	2011	2010	2009
Net impairment losses recognized in earnings	$(6,898)	$(26,804)	$(13,471)
Net realized gains (losses) on investment securities available-for sale and loans	2,622	4,821	1,890
Net realized and unrealized (loss) gain on investment securities-trading	858	14,791	–
Provision for loan and lease losses	(13,896)	(43,321)	(61,383)
Gain on the extinguishment of debt	3,875	34,610	44,546
Other income (expense)	(1,663)	513	(1,350)
Total other expense	$(15,102)	$(15,390)	$(29,768)

Year Ended December 31, 2011 as compared to Year Ended December 31, 2010

Net impairment losses recognized in earnings decreased $19.9 million (74%) to a loss of $6.9 million for the year ended December 31, 2011 from a loss of $26.8 million for the year ended December 31, 2010. Impairment charges for the year ended December 31, 2011 consisted of $4.6 million on two CMBS positions and $2.2 million on our investment in preferred stock and warrants in LCC. Impairment for the year ended December 31, 2010 related to impairment charges of $26.6 million taken on five CMBS positions.

Net realized gains on investment securities available-for-sale and loans decreased $2.2 million (46%) to $2.6 million for the year ended December 31, 2011 from $4.8 million for the year ended December 31, 2010. The decrease is primarily the result of decreased gains from sales of investments in our CMBS portfolio during the year ended December 31, 2011 of $1.5 million as well as increased losses from sales of ABS of $1.5 million during the year ended December 31, 2011 as a result of tax planning with respect to our 75% gross income test for REIT qualification. The losses were partially offset by increased gains from the sale of Apidos loans of $675,000 during the year ended December 31, 2011.

Net realized and unrealized gain on investment securities-trading decreased $13.9 million (94%) to a gain of $858,000 for the year ended December 31, 2011, from a gain of $14.8 million for the year ended December 31, 2010. The decrease in gains is the result of fewer sales of structured finance securities as well as unrealized losses on the positions we still hold due to the decline in fair market value.

Our provision for loan and lease losses decreased $29.4 million (68%) to a provision of $13.9 million for the year ended December 31, 2011, as compared to a provision of $43.3 million for the year ended December 31, 2010.

The following table summarizes information relating to our provision for loan and lease losses for the periods presented (in thousands):

	Year Ended December 31,	
	2011	2010
CRE loan portfolio	$ 6,478	$ 44,357
Bank loan portfolio	7,418	(1,348)
Lease receivables	–	312
	$ 13,896	$ 43,321

(Back to Index)

(Back to Index)

The principal reason for the decrease for the year ended December 31, 2011 was improved credit conditions for the borrowers in our CRE portfolio where we have seen a reduction in the magnitude of impaired and defaulted loans due in large part to successful restructuring of 26 loans. For the year ended December 31, 2011, we had five positions for which we took provisions. The positions had a total par value of $84.4 million and were written down to $63.4 million for a weighted average write down percentage of 24.9% of par. We had eight positions for which we took a provision during the year ended December 31, 2010. The positions had a total par value of $88.9 million and were written down to $51.7 million for a weighted average write-down percentage of 41.8% of par. The decrease in provisions for the year ended December 31, 2011 was partially offset by reserves on our bank loan portfolio principally related to reserves taken on two specific loans in December 2011 as well as by the sale of loans at losses, primarily during the three months ended December 31, 2011.

Gain on the extinguishment of debt was $3.9 million for the year ended December 31, 2011 and is due to the buyback of $10.0 million of the debt issued by our two CRE CDOs during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 61.3% of par. Gain on the extinguishment of debt was $34.6 million during the year ended December 31, 2010 and is due to the buyback of $91.4 million of debt issued by the CRE CDOs. The notes, issued at par, were repurchased as an investment by us at a weighted average price of 62.1% of par. The related deferred debt issuance costs were immaterial.

Year Ended December 31, 2010 as compared to Year Ended December 31, 2009

Net impairment losses recognized in earnings were $26.8 million during the year ended December 31, 2010 and consisted primarily of other-than-temporary impairment losses of $26.6 million on five CMBS-private placement positions. Losses during the year ended December 31, 2009 consisted of $6.9 million on two CMBS-private placement positions, $5.7 million on our other ABS position and $895,000 on one of our investment securities held-to-maturity.

Net realized gains on investment securities available-for-sale and loans increased $2.9 million (155%) to $4.8 million for the year ended December 31, 2010 from $1.9 million for the year ended December 31, 2009. The increase is primarily due to $5.0 million of net gains on the sale of CMBS – private placement positions during the year ended December 31, 2010 as compared to $160,000 of net gains on CMBS – private placement positions during the year ended December 31, 2009, reflecting a positive effect of a market rally in CMBS pricing on our portfolio. These gains were partially offset by $1.3 million of losses on our ABS held-to-maturity portfolio from the sale of securities due to our evaluation of the creditworthiness of the underlying assets. These gains were also partially offset by a decrease of $489,000 from trading loss differences on our Apidos loans recognized as held-for-sale which were losses $114,000 during the year ended December 31, 2010 as compared to gains of $375,000 on that same portfolio for the year ended December 31, 2009 as a result of timing differences of when positions were recognized for sale and sold.

Net realized and unrealized gains on investment securities-trading was $14.8 million for the year ended December 31, 2010. The gains are the result of sales of structured finance securities as well as the result of marking the structured finance positions we still held to market as of December 31, 2010. No such portfolio existed prior to June 2010.

Our provision for loan and lease losses decreased $18.1 million (29%) to $43.3 million for the year ended December 31, 2010, as compared to $61.4 million for the year ended December 31, 2009.

The following table summarizes information relating to our provision for loan and lease losses for the periods presented (in thousands):

	Year Ended December 31,

		2010		2009
CRE loan portfolio	$	44,357	$	31,856
Bank loan portfolio		(1,348)		26,855
Lease receivables		312		2,672
	$	43,321	$	61,383

The principal reason for the decrease in 2010 from 2009 was the significant improvement in market conditions with respect to assets in our bank loan portfolio. There was also a decrease in the provision on our lease receivables which was primarily due to the sale of the legacy portfolio and subsequent acquisition of a new leasing portfolio which was underwritten with stricter credit standards. These improvements were partially offset by provisions for our CRE portfolio, which had declined in value. During the year ended December 31, 2010, we had 11 loans for which we had taken provisions as compared to four loans for the year ended December 31, 2009 as a result of our impairment analysis. We also increased our general reserve by $3.1 million during the year ended December 31, 2010 as a result of market conditions.

(Back to Index)

(Back to Index)

Gain on the extinguishment of debt decreased $9.9 million (22%) during the year ended December 31, 2010 to $34.6 million for the year ended December 31, 2010 from $44.5 million for the year ended December 31, 2009. During the year ended December 31, 2010, we bought back $91.4 million of debt issued by our two CRE CDOs. The notes, issued at par, were repurchased as an investment by us at a weighted average price of 62.1% of par resulting in a gain of $34.6 million. During the year ended December 31, 2009, we bought back $55.5 million of debt issued by our two CRE CDOs. The notes, issued at par, were repurchased as an investment by us at a weighted average price of 19.8% of par resulting in a gain of $44.5 million. The related deferred debt issuance costs were immaterial.

Other (expense) income increased $1.9 million to income of $513,000 for the year ended December 31, 2010 as compared to expense of $1.4 million for the year ended December 31, 2009. The decrease in expense was primarily due to a charge of $1.4 million that was the result of an accrual for a liability related to a settlement on our equity position in the Ischus CDO II portfolio in 2009. We sold our interest in Ischus CDO II in November 2007.

Financial Condition

Summary

Our total assets at December 31, 2011 were $2.3 billion as compared to $1.9 billion at December 31, 2010. The increase in total assets was principally due to the purchase of assets for our new Apidos CLO VIII which closed in October 2011.

Investment Portfolio

The following tables summarize the amortized cost and net carrying amount of our investment portfolio as of December 31, 2011 and 2010, classified by interest rate type. The following table includes 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 net carrying amount of our investment portfolio and the related dollar price, which is computed by dividing the net carrying amount by par amount (in thousands, except percentages):

(Back to Index)

(Back to Index)

	Amortized cost (3)	Dollar price	Net carrying amount	Dollar price	Net carrying amount less amortized cost	Dollar price
December 31, 2011						
Floating rate						
RMBS	$ 8,729	18.60%	$ 7,120	15.17%	$ (1,609)	-3.43%
CMBS-private placement	28,691	100.00%	8,311	28.97%	(20,380)	-71.03%
Structured notes	27,345	41.53%	31,553	47.93%	4,208	6.40%
ABS	28,513	88.21%	25,201	77.96%	(3,312)	-10.25%
Other ABS	–	0.00%	23	0.28%	23	0.28%
Mezzanine loans (2)	53,908	99.97%	53,077	98.43%	(831)	-1.54%
Whole loans (2)	537,708	99.79%	515,176	95.61%	(22,532)	-4.18%
Bank loans (3)	1,170,599	97.33%	1,142,907	95.03%	(27,692)	-2.30%
Loans held for sale (4)	3,154	54.59%	3,154	54.59%	–	0.00%
Total floating rate	1,858,647	93.71%	1,786,522	90.08%	(72,125)	-3.63%
Fixed rate						
CMBS – private placement	132,821	71.94%	124,509	67.44%	(8,312)	-4.50%
B notes (2)	16,435	99.13%	16,182	97.61%	(253)	-1.52%
Mezzanine loans (2)	13,966	100.35%	13,361	96.00%	(605)	-4.35%
Whole loans (2)	6,965	99.47%	6,965	99.47%	–	0.00%
Loans receivable-related party	9,497	100.00%	9,497	100.00%	–	0.00%
Total fixed rate	179,684	77.58%	170,514	73.62%	(9,170)	-3.96%
Other (non-interest bearing)						
Investment in real estate	48,027	100.00%	48,027	100.00%	–	0.00%
Investment in unconsolidated entities	47,899	100.00%	47,899	100.00%	–	0.00%
Total other	95,926	100.00%	95,926	100.00%	–	0.00%
Grand total	$ 2,134,257	92.36%	$ 2,052,962	88.84%	$ (81,295)	-3.52%
December 31, 2010						
Floating rate						
CMBS-private placement	$ 31,127	100.00%	$ 9,569	30.74%	$ (21,558)	-69.26%
Structured notes	7,984	34.09%	17,723	75.67%	9,739	41.58%
ABS held-to-maturity (1)	29,036	91.08%	25,941	81.37%	(3,095)	-9.71%
Other ABS	–	0.00%	22	0.26%	22	0.26%
B notes (2)	26,485	99.94%	26,071	98.38%	(414)	-1.56%
Mezzanine loans (2)	83,699	100.00%	82,680	98.78%	(1,019)	-1.22%
Whole loans (2)	441,372	99.92%	419,207	94.91%	(22,165)	-5.01%
Bank loans (3)	856,436	96.99%	850,500	96.32%	(5,936)	-0.67%
Loans held for sale (4)	13,593	55.92%	13,593	55.92%	–	0.00%
Total floating rate	1,489,732	95.86%	1,445,306	93.01%	(44,426)	-2.85%
Fixed rate						

CMBS – private placement	52,097	48.30%	54,369	50.41%	2,272	2.11%
B notes (2)	30,966	99.53%	30,482	97.97%	(484)	-1.56%
Mezzanine loans (2)	38,545	100.23%	31,012	80.64%	(7,533)	-19.59%
Loans held for sale (4)	15,000	75.00%	15,000	75.00%	–	0.00%
Lease receivables (5)	109,682	100.00%	109,612	99.94%	(70)	-0.06%
Loans receivable-related party	9,927	100.00%	9,927	100.00%	–	0.00%
Total fixed rate	256,217	80.20%	250,402	78.30%	(5,815)	-1.90%
Other (non-interest bearing)						
Investment in unconsolidated entities	6,791	100.00%	6,791	100.00%	–	0.00%
Total other	6,791	100.00%	6,791	100.00%	–	0.00%
Grand total	$ 1,752,740	93.28%	$ 1,702,499	90.58%	$ (50,241)	-2.70%

(Back to Index)

(Back to Index)

(1) ABS held-to-maturity are carried at amortized cost less other-than-temporary impairments.
(2) Net carrying amount includes an allowance for loan losses of $24.2 million at December 31, 2011, allocated as follows: B notes ($253,000), mezzanine loans ($1.4 million) and whole loans ($22.5 million). Net carrying amount includes an allowance for loan losses of $31.6 million at December 31, 2010, allocated as follows: B notes ($899,000), mezzanine loans ($8.5 million) and whole loans ($22.2 million).
(3) The bank loan portfolio is carried at amortized cost less allowance for loan loss and was $1.2 billion at December 31, 2011. The amount disclosed represents net realizable value at December 31, 2011, which includes a $3.3 million allowance for loan losses at December 31, 2011. The bank loan portfolio was $853.8 million (net of allowance of $2.6 million) at December 31, 2010.
(4) Loans held for sale are carried at the lower of cost or market. Amortized cost is equal to fair value.
(5) Net carrying amount includes a $70,000 allowance for lease receivable losses at December 31, 2010.

Commercial Mortgage-Backed Securities-Private Placement. In the aggregate, we purchased our CMBS-private placement portfolio at a discount. At December 31, 2011 and 2010, the remaining discount to be accreted into income over the remaining lives of the securities was $13.2 million and $20.9 million, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair value.

During the year ended December 31, 2011, we recognized a $4.6 million other-than-temporary impairment on one position that supported our CMBS investments, bringing the fair value to $200,000. During the year ended December 31, 2010, we recognized $26.6 million of other-than-temporary impairments on five positions that supported our CMBS investments, bringing the combined fair value to $215,000. The assumed default of these collateral positions in our cash flow model yielded a value of less than full recovery of our cost basis. The net impairment losses were recognized in earnings in the consolidated statements of operations. All of our other-than-temporary impairment losses are related to credit losses.

The following table summarizes our CMBS investments (in thousands, except percentages):

	Fair Value at December 31, 2010	Net Purchases	Upgrades/ Downgrades	Mark to Market Change on Same Ratings	Fair Value at December 31, 2011
Moody's Ratings Category:					
Aaa	$ –	$ 59,727	$ –	$ –	$ 59,727
Aa1 through Aa3	4,493	4,115	–	(4,493)	4,115
A1 through A3	18,570	5,038	–	(12,930)	10,678
Baa1 through Baa3	28,660	10,666	–	(11,487)	27,839
Ba1 through Ba3	1,480	–	(1,923)	3,945	3,502
B1 through B3	517	–	(960)	1,403	960
Caa1 through Caa3	6,739	–	(1,874)	2,286	7,151
Ca through C	3,479	–	–	(1,385)	2,094
Non-Rated	–	9,301	–	7,453	16,754
Total	$ 63,938	$ 88,847	$ (4,757)	$ (15,208)	$ 132,820
S&P Ratings Category:					
AAA	$ –	$ 59,727	$ (783)	$ 783	$ 59,727
A+ through A-	9,562	–	–	(3,639)	5,923
BBB+ through BBB-	36,385	7,915	–	(25,121)	19,179
BB+ through BB-	7,690	16,350	(3,200)	289	21,129

B+ through B-	–	–	(2,310)	4,620	2,310
CCC+ through CCC-	10,220	–	–	(3,577)	6,643
D	81	–	(366)	901	616
Non-Rated	–	4,855	–	12,438	17,293
Total	$ 63,938	$ 88,847	$ (6,659)	$ (13,306)	$ 132,820

(Back to Index)

(Back to Index)

Investment Securities, Trading. The following table summarizes our structured notes and RMBS securities, which are classified as investment securities, trading and carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011:				
Structured notes	$ 27,345	$ 6,098	$ (1,890)	$ 31,553
Residential mortgage-backed securities, or RMBS	8,729	100	(1,709)	7,120
Total	$ 36,074	$ 6,198	$ (3,599)	$ 38,673
December 31, 2010:				
Structured notes	$ 7,984	$ 9,739	$ –	$ 17,723
Total	$ 7,984	$ 9,739	$ –	$ 17,723

We purchased 27 securities and sold 11 securities during the year ended December 31, 2011, for a net realized gain of $8.0 million. We held 27 and 11 investment securities, trading as of December 31, 2011 and December 31, 2010, respectively.

Other Asset-Backed Securities. At December 31, 2011 and 2010, we held two other ABS positions with a fair value of $23,000. These securities are classified as available-for-sale and carried at fair value.

Real Estate Loans. The following table is a summary of the loans in our commercial real estate loan portfolio at the dates indicated (in thousands):

Description	Quantity	Amortized Cost	Contracted Interest Rates	Maturity Dates (4)
December 31, 2011:				
Whole loans, floating rate (1) (5)	32	$ 537,708	LIBOR plus 2.50% to LIBOR plus 5.75%	April 2012 to February 2019
Whole loans, fixed rate	1	6,965	10.00%	June 2012
B notes, fixed rate	1	16,435	8.68%	April 2016
Mezzanine loans, floating rate	3	53,908	LIBOR plus 2.50% to LIBOR plus 7.45%	May 2012 to December 2012
Mezzanine loans, fixed rate	2	13,966	8.99% to 11.00%	January 2016 to September 2016
Total (3)	39	$ 628,982		
December 31, 2010:				
Whole loans, floating rate (1)	25	$ 441,372	LIBOR plus 1.50% to LIBOR plus 5.75%	May 2011 to January 2018
B notes, floating rate	2	26,485	LIBOR plus 2.50% to LIBOR plus 3.01%	July 2011 to October 2011
B notes, fixed rate	2	30,966	7.00% to 8.68%	July 2011 to

					April 2016
Mezzanine loans, floating rate	6		93,266	LIBOR plus 2.15% to LIBOR plus 3.00%	May 2011 to January 2013
Mezzanine loans, fixed rate (2)	5		53,545	8.14% to 11.00%	January 2016 to September 2016
Total (3)	40	$	645,634		

(Back to Index)

(Back to Index)

(1) Whole loans had $5.2 million and $5.0 million in unfunded loan commitments as of December 31, 2011 and 2010, respectively. These commitments are funded as the loans require additional funding and the related borrowers have satisfied the requirements to obtain this additional funding.
(2) Fixed rate mezzanine loan dates exclude a loan that matured in May 2010, was in default and had been on non-accrual status since its default. The loan was written off in March 2011.
(3) The total does not include an allowance for loan losses of $24.2 million and $31.6 million recorded as of December 31, 2011 and 2010, respectively.
(4) Maturity dates do not include possible extension options that may be available to the borrowers.
(5) Floating rate whole loans include a $2.0 million mezzanine portion of a whole loan that has a fixed rate of 15.0% and a preferred equity loan for $302,000 that has a fixed rate of 10% as of December 31, 2011.

During the year ended December 31, 2011, we converted a loan collateralized by a multi-family apartment property to an equity position. After a review of the fair value of the apartment building, we determined that a gain or loss on conversion was not required. We classified this property as investments in real estate with a fair value of $22.4 million at June 14, 2011.

During the year ended December 31, 2011, we converted a loan collateralized by an office building to an equity position. After a review of the fair value of the office building, we determined a provision of $1.7 million was needed. We classified this property as investments in real estate with a fair value of $10.7 million at June 24, 2011.

Bank Loans. At December 31, 2011, our consolidated securitizations, Apidos CDO I, Apidos CDO II, Apidos Cinco CDO and Apidos CDO VIII, held a total of $1.1 billion of bank loans at fair value. The bank loans held by these entities secure the CDO notes they issued. The aggregate bank loans held increased by $291.5 million over their holdings at December 31, 2010. This increase was principally due to the acquisition of $334.8 million par value of bank loans through the closing of Apidos CLO VIII in October 2011. These increases were partially offset by the reduced market price for these bank loans at December 31, 2011 as compared to December 31, 2010.

We have determined that Apidos CDO I, Apidos CDO III, Apidos Cinco CDO and Apidos CDO VIII are variable interest entities, or VIEs, and that we are the primary beneficiary for each vehicle. As a result, we consolidated Apidos CDO I, Apidos CDO III, Apidos Cinco CDO and Apidos CLO VIII as of December 31, 2011. We own 100% of the equity of Apidos CDO I, Apidos CDO III and Apidos CDO Cinco. We own approximately 43% of the equity of Apidos CDO VIII.

The following table summarizes our bank loan investments (in thousands):

	December 31, 2011		December 31, 2010	
	Amortized cost	Fair Value	Amortized cost	Fair Value
Moody's ratings category:				
Baa1 through Baa3	$ 44,952	$ 44,956	$ 27,262	$ 27,517
Ba1 through Ba3	648,543	644,497	432,153	437,801
B1 through B3	439,871	427,282	351,147	347,755
Caa1 through Caa3	19,710	12,774	20,879	16,690
Ca	5,765	2,397	7,062	2,858
No rating provided	14,912	14,155	21,960	21,906
Total	$ 1,173,753	$ 1,146,061	$ 860,463	$ 854,527
S&P ratings category:				
BBB+ through BBB-	$ 84,623	$ 84,615	$ 54,560	$ 55,078
BB+ through BB-	561,375	559,211	373,971	379,074

B+ through B-		478,684		465,564		360,581		358,504
CCC+ through CCC-		27,097		19,401		29,707		22,171
CC+ through CC-		4,490		1,512		1,633		1,280
C+ through C-		–		–		–		–
D		352		343		1,050		431
No rating provided		17,132		15,415		38,961		37,989
Total	$	1,173,753	$	1,146,061	$	860,463	$	854,527
Weighted average rating factor		1,969				2,061		

(Back to Index)

(Back to Index)

The following table provides information as to the lien position and status of our bank loans. All except $850,000 of the first lien loans at December 31, 2010 are held by the indicated CDOs, which we consolidate (in thousands):

	Amortized Cost				
	Apidos I	Apidos III	Apidos Cinco	Apidos VIII	Total
December 31, 2011:					
Loans held for investment:					
First lien loans	$295,318	$242,628	$293,442	$311,923	$1,143,311
Second lien loans	5,281	5,746	6,438	6,845	24,310
Subordinated second lien loans	163	122	–	–	285
Defaulted first lien loans	1,397	599	697	–	2,693
Defaulted second lien loans	–	–	–	–	–
Total	302,159	249,095	300,577	318,768	1,170,599
First lien loans held for sale at fair value	–	198	2,018	938	3,154
Total	$302,159	$249,293	$302,595	$319,706	$1,173,753
December 31, 2010:					
Loans held for investment:					
First lien loans	$288,163	$236,142	$296,208	$–	$820,513
Second lien loans	12,902	10,011	11,513	–	34,426
Subordinated second lien loans	163	122	–	–	285
Defaulted second lien loans	–	–	362	–	362
Total	301,228	246,275	308,083	–	855,586
First lien loans held for sale at fair value	2,822	–	1,205	–	4,027
Total	$304,050	$246,275	$309,288	$–	$859,613

Asset-backed securities. In November 2011, the investment securities held-to-maturity portfolio was reclassified to investment securities available-for-sale since management no longer intended to hold these positions until maturity. These investments are now held at fair value with any unrealized gain or loss is reported in the stockholder's equity section of the balance sheet. At December 31, 2011, we held a total of $25.2 million fair value of ABS available-for-sale through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. At December 31, 2010, we held a total of $25.9 million fair value of ABS held-to-maturity through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities.

The following table summarizes our ABS at fair value (in thousands):

	December 31, 2011		December 31, 2010	
	Amortized cost	Fair Value	Amortized cost	Fair Value
Moody's ratings category:				
Aaa	$8,252	$8,051	$–	$–
Aa1 through Aa3	1,723	1,593	2,766	3,025
A1 through A3	6,446	6,366	7,625	8,117
Baa1 through Baa3	2,647	2,543	1,950	1,950
Ba1 through Ba3	5,043	3,592	2,503	2,338
B1 through B3	3,613	2,346	4,998	3,881
Caa1 through Caa3	–	–	9,194	6,630
No rating provided	789	710	–	–

Total	$28,513	$25,201	$29,036	$25,941
S&P ratings category:				
AA+ through AA-	$8,138	$7,928	$5,099	$5,437
A+ through A-	7,467	7,347	5,292	5,705
BBB+ through BBB-	950	866	3,516	3,479
BB+ through BB-	1,592	1,335	3,062	2,765
B+ through B-	3,639	3,200	–	–
CCC+ through CCC-	–	–	–	–
No rating provided	6,727	4,525	12,067	8,555
Total	$28,513	$25,201	$29,036	$25,941
Weighted average rating factor	582		3,105	

(Back to Index)

(Back to Index)

Lease Receivables. Investments in lease receivables, net of unearned income, were as follows (in thousands):

	December 31, 2011	December 31, 2010
Leases, net of unearned income	$ –	$ 75,908
Operating leases	–	17,900
Notes receivable	–	15,874
Subtotal	–	109,682
Allowance for lease losses	–	(70)
Total	$ –	$ 109,612

On January 4, 2011, our wholly-owned subsidiary, Resource TRS, acquired an interest in LCC, a newly-formed equipment financing subsidiary of LEAF Financial Corporation, or LEAF Financial, a subsidiary of Resource America. Resource TRS contributed initial capital of approximately $26.2 million to LCC in the form of approximately $5.2 million in cash, and all of its interest in LEAF Receivables Funding 3, a wholly-owned subsidiary of Resource TRS which held a portfolio of equipment, equipment leases and notes. As part of the transaction, LEAF Financial contributed its assets relating to its equipment lease and note origination, servicing and finance business to LCC. Also, senior management personnel of LEAF Financial, or collectively, the Management Parties, contributed capital to LCC in the form of all of the shares of common stock they owned in LEAF Financial in exchange for 10% of the shares of LCC common stock on a fully-diluted basis. This transaction resulted in the deconsolidation of our leasing investments.

In return for Resource TRS's capital investments, LCC issued to Resource TRS 2,626,783 shares of LCC Series A preferred stock and warrants to purchase 4,800 shares of LCC common stock for an exercise price of $0.01 per share. LCC exercised its rights granted to it under the share purchase agreement during the nine months ended September 30, 2011 and we acquired an additional $10.0 million of Series A preferred stock, representing 48% of LCC's common stock on a fully-diluted basis, which we classified as securities available-for-sale on our consolidated balance sheet. The preferred stock carries a coupon of 10%, of which 2% is received in cash and 8% is paid-in-kind. During the year ended December 31, 2011, $2.4 million of paid-in-kind interest was paid in the form of additional shares of Series A preferred stock as elected by LCC.

On July 20, 2011, we entered into an agreement with LCC, pursuant to which we provided a $10.0 million loan to LCC, which was funded on November 4, 2011. The loan was to mature on January 20, 2013 and bore interest at a fixed rate of 8.0% per annum on the unpaid principal balance, payable quarterly. The loan was secured by all the assets of LEAF Capital Funding, LLC and LEAF Financial's interest in LEAF Receivables Funding 3. On November 16, 2011, LLC used $8.5 million of the $11.2 million they received from a stock purchase agreement transaction to repay $8.4 million in principal plus all outstanding accrued interest on the loan, representing approximately 85% of the outstanding indebtedness owed to us. Both parties agreed that the loan was considered paid in full as of December 31, 2011. Accordingly, we recorded a charge to Additional Paid-In Capital to eliminate the remaining debt of $1.6 million.

On November 16, 2011, we, together with LEAF Financial and LCC, entered into a stock purchase agreement with Eos Partners, L.P., or Eos, a private investment firm, and its affiliates. In exchange for our prior interest in LCC, we received 31,341 shares of Series A Preferred Stock, 4,872 shares of newly issued 8% Series B Redeemable Preferred Stock, or the Series B Preferred Stock, and 2,364 shares of newly issued Series D Redeemable Preferred Stock, or the Series D Preferred Stock, collectively representing, on a fully-diluted basis, a 26.7% interest in LCC. Our investment in LEAF was valued at $36.3 million based on a third-party valuation. Several approaches, including discounted expected cash flows, market approach and comparable sales transactions were used to estimate the fair value of our investment in LEAF as a result of the transaction. These approaches required assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates, which were based on the current economic environment and credit market conditions. Accordingly, we recorded a loss of $2.2 million in conjunction with the transaction. Subsequent to this transaction, our resulting interest will be accounted for under the equity method.

In accordance with the agreement, we and Resource America have undertaken a contingent obligation with respect to the value of the equity on the balance sheet of LEAF Receivables Funding 3. To the extent that the value of the equity on the balance sheet of LEAF Receivables Funding 3 is less than approximately $18.7 million (the value of the equity of LRF 3 on the date it was contributed to LCC by us), as of the final testing date within 90 days of December 31, 2013, we and Resource America have agreed to be jointly and severally obligated to contribute cash to LCC to make up the deficit. We do not believe it is probable or estimable that we will be required to fund LCC in accordance with the SPA.

(Back to Index)

(Back to Index)

Financing Receivables

The following tables show the allowance for loan and lease receivable losses and recorded investments in loans and lease receivables for the years indicated (in thousands):

	Commercial Real Estate Loans	Bank Loans	Lease Receivables	Loans Receivable-Related Party	Total
December 31, 2011:					
Allowance for losses at January 1, 2011	$31,617	$2,616	$70	$ –	$34,303
Provision for loan loss	6,478	7,418	–	–	13,896
Loans charged-off	(13,874)	(6,737)	(70)	–	(20,681)
Recoveries	–	–	–	–	–
Allowance for losses at December 31, 2011	$24,221	$3,297	$–	$ –	$27,518
Ending balance:					
Individually evaluated for impairment	$17,065	$1,593	$–	$ –	$18,658
Collectively evaluated for impairment	$7,156	$1,704	$–	$ –	$8,860
Loans acquired with deteriorated credit quality	$–	$–	$–	$ –	$–
Loans:					
Ending balance:					
Individually evaluated for impairment	$113,038	$2,693	$–	$ –	$115,731
Collectively evaluated for impairment	$515,944	$1,171,060	$–	$ 9,497	$1,696,501
Loans acquired with deteriorated credit quality	$–	$–	$–	$ –	$–
December 31, 2010:					
Allowance for losses at January 1, 2010	$29,297	$17,825	$1,140	$ –	$48,262
Provision for loan loss	44,357	(1,348)	312	–	43,321
Loans charged-off	(42,037)	(13,861)	(1,432)	–	(57,330)
Recoveries	–	–	50	–	50
Allowance for losses at December 31, 2010	$31,617	$2,616	$70	$ –	$34,303
Ending balance:					
Individually evaluated for impairment	$20,844	$112	$–	$ –	$20,956
Collectively evaluated for impairment	$10,773	$2,504	$70	$ –	$13,347
Loans acquired with deteriorated credit quality	$–	$–	$–	$ –	$–
Loans:					
Ending balance:					

Individually evaluated for impairment	$153,620	$362	$ 10,024	$ –	$164,006
Collectively evaluated for impairment	$492,015	$860,101	$ 99,658	$ 9,927	$1,461,700
Loans acquired with deteriorated credit quality	$–	$–	$ –	$ –	$–

(Back to Index)

(Back to Index)

Credit quality indicators

Bank Loans

We use a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing our highest rating and 5 representing our lowest rating. We consider such things as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies, and industry dynamics.

Credit risk profiles of bank loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of December 31, 2011:							
Bank loans	$1,076,298	$19,739	$60,329	$11,540	$2,693	$3,154	$1,173,753
As of December 31, 2010:							
Bank loans	$759,161	$43,858	$45,115	$7,940	$362	$4,027	$860,463

All of our bank loans are performing with the exception of one loan which defaulted on December 30, 2011 with a carrying amount of $2.7 million as of December 31, 2011. As of December 31, 2010, all but one of our bank loans were performing with a par amount of $362,000 which has been in default since September 2010 and sold in November 2011.

Commercial Real Estate Loans

We use a risk grading matrix to assign grades to commercial real estate loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-4 with 1 representing our highest rating and 4 representing our lowest rating. In addition to the underlying performance of the loan collateral, we consider such things as the strength of underlying sponsorship, payment history, collectability of interest, structural credit enhancements, market trends and loan terms.

Credit risk profiles of commercial real estate loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Held for Sale	Total
As of December 31, 2011:						
Whole loans	$ 329,085	$ 87,598	$ 90,225	$ 37,765	$ –	$ 544,673
B notes	16,435	–	–	–	–	16,435
Mezzanine loans	23,347	–	44,527	–	–	67,874
	$ 368,867	$ 87,598	$ 134,752	$ 37,765	$ –	$ 628,982
As of December 31, 2010:						
Whole loans	$ 123,350	$ 16,143	$ 264,660	$ 37,219	$ –	$ 441,372
B notes	16,538	–	40,913	–	–	57,451
Mezzanine loans	32,635	–	84,610	5,000	24,566	146,811

$	172,523	$	16,143	$	390,183	$	42,219	$	24,566	$	645,634

All of our real estate loans were performing as of December 31, 2011. As of December 31, 2010, all but one of our commercial real estate loans, with a par amount of $5.0 million, which has been in default since May 2010, were performing. That loan was charged off in March 2011.

Lease receivables

We evaluate the adequacy of the allowance for credit losses in lease receivables based upon, among other factors, management's historical experience with the commercial finance portfolios we manage, an analysis of contractual delinquencies, economic conditions and trends, industry statistics and equipment finance portfolio characteristics, as adjusted for expected recoveries. In evaluating historic performance of leases and loans, a migration analysis is performed that estimates the likelihood that an account progresses through delinquency stages to ultimate write-off. We fully reserve, net of recoveries, all leases and loans after they are 180 days past due.

(Back to Index)

(Back to Index)

Loan and Lease Receivable Portfolios Aging Analysis

The following table shows the loan and lease receivable portfolio aging analysis for the years indicated at cost basis (in thousands):

	30 – 59 Days	60 – 89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
December 31, 2011:							
Whole loans	$ –	$ –	$ –	$ –	$ 544,673	$ 544,673	$ –
B notes	–	–	–	–	16,435	16,435	–
Mezzanine loans	–	–	–	–	67,874	67,874	–
Bank loans	–	–	–	–	1,173,753	1,173,753	–
Lease receivables	–	–	–	–	–	–	–
Loans receivable-related party	–	–	–	–	9,497	9,497	–
Total loans	$ –	$ –	$ –	$ –	$ 1,812,232	$ 1,812,232	$ –
December 31, 2010:							
Whole loans	$ –	$ –	$ –	$ –	$ 441,372	$ 441,372	$ –
B notes	–	–	–	–	57,451	57,451	–
Mezzanine loans	–	–	5,000	5,000	141,811	146,811	–
Bank loans	–	–	–	–	860,463	860,463	–
Lease receivables	630	237	829	1,696	107,986	109,682	–
Loans receivable-related party	–	–	–	–	9,927	9,927	–
Total loans	$ 630	$ 237	$ 5,829	$ 6,696	$ 1,619,010	$ 1,625,706	$ –

Impaired Loans and Lease Receivables

The following tables show impaired loans and lease receivables indicated (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2011:					
Loans and lease receivables without a specific valuation allowance:					
Whole loans	$75,273	$75,273	$–	$75,263	$2,682
B notes	$–	$–	$–	$–	$–
Mezzanine loans	$–	$–	$–	$–	$–
Bank loans	$–	$–	$–	$–	$–
Loans and lease receivables with a specific valuation allowance:					

Whole loans	$37,765	$37,765	$(17,065)	$36,608	$920
B notes	$–	$–	$–	$–	$–
Mezzanine loans	$–	$–	$–	$–	$–
Bank loans	$2,693	$2,693	$(1,593)	$2,693	$–
Total:					
Whole loans	$113,038	$113,038	$(17,065)	$111,871	$3,602
B notes	–	–	–	–	–
Mezzanine loans	–	–	–	–	–
Bank loans	2,693	2,693	(1,593)	2,693	–
	$115,731	$115,731	$(18,658)	$114,564	$3,602

(Back to Index)

(Back to Index)

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2010:					
Loans and lease receivables without a specific valuation allowance:					
Whole loans	$111,401	$111,401	$–	$58,058	$1,133
B notes	$–	$–	$–	$–	$–
Mezzanine loans	$–	$–	$–	$–	$–
Bank loans	$–	$–	$–	$–	$–
Lease receivables	$–	$–	$–	$–	$–
Loans and lease receivables with a specific valuation allowance:					
Whole loans	$37,219	$37,219	$(15,844)	$36,740	$993
B notes	$–	$–	$–	$–	$–
Mezzanine loans	$5,000	$5,000	$(5,000)	$5,000	$–
Bank loans	$362	$362	$(112)	$8,971	$–
Lease receivables	$10,024	$10,024	$(4,107)	$4,791	$–
Total:					
Whole loans	$148,620	$148,620	$(15,844)	$94,798	$2,126
B notes	–	–	–	–	–
Mezzanine loans	5,000	5,000	(5,000)	5,000	–
Bank loans	362	362	(112)	8,971	–
Lease receivables	10,024	10,024	(4,107)	4,791	–
	$164,006	$164,006	$(25,063)	$113,560	$2,126

Troubled-Debt Restructurings

The following tables show the loan and lease receivable portfolio troubled-debt restructurings (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
December 31, 2011:			
Whole loans	3	$ 67,985	$ 64,573
B notes	–	–	–
Mezzanine loans	–	–	–
Bank loans	–	–	–
Loans receivable - related party	1	7,981	7,981
Total loans	4	$ 75,966	$ 72,554

As of December 31, 2011 and 2010, there were no troubled-debt restructurings that subsequently defaulted. There was one loan, with a par value of $37.8 million, that was deemed a troubled debt restructuring in 2010 which continued to require maturity extensions and monthly advances against the mezzanine balance during 2011.

Investments in Real Estate

The table below summarizes our investments in real estate (in thousands):

	As of December 31, 2011	
	Book Value	Number of Properties
Multi-family property	$38,577	2
Office property	10,149	1
Subtotal	48,726	
Less: Accumulated depreciation	(699)	
Investments in real estate	$48,027	

We had no investments in real estate as of December 31, 2010.

(Back to Index)

(Back to Index)

Acquisitions. During the year ended December 31, 2011, we converted two loans we had originated to investments in real estate and acquired one real estate asset, summarized as follows:

On June 14, 2011, we converted a loan that we had originated to equity with a fair value of $22.4 million at acquisition. The loan was collateralized by a 400 unit multi-family property in Memphis, Tennessee. The property was 93.8% occupied at acquisition.

On June 24, 2011, we converted a loan that we had originated to equity with a fair value of $10.7 million at acquisition. The loan was collateralized by an office building in Pacific Palisades, California. The property was 60% occupied at acquisition.

On August 1, 2011, we entered into an agreement to purchase Whispertree Apartments, a 504 multi-family property located in Houston, Texas, for $18.1 million, the fair value. The property was 95% occupied at acquisition. In conjunction with the purchase of this property, we entered into a mortgage in the amount of $13.6 million.

A summary of the aggregated estimated fair value of the assets and liabilities acquired on the respective dates of acquisition are presented below (in thousands):

Description	Estimated Fair Value
Assets acquired:	
Investments in real estate	$ 48,683
Cash and cash equivalents	177
Restricted cash	2,360
Intangible assets	2,490
Other assets	391
Total assets acquired	54,101
Liabilities assumed:	
Accounts payable and other liabilities	673
Total liabilities assumed	673
Estimated fair value of net assets acquired	$ 53,428

We acquired Whispertree Apartments and accounted for this transaction as a business combination in accordance with FASB ASC Topic 805. In the fourth quarter of 2011, we obtained the final appraisal of the property. Based on the final appraisal, we adjusted the value of the land and the value of the building by $3.9 million, respectively, as of the acquisition date. Accordingly, these adjustments were recognized and are reflected in the consolidated financial statements as of December 31, 2011.

Restricted cash. At December 31, 2011, we had restricted cash of $142.8 million, which consisted of $138.1 million of restricted cash on our six CDOs, $1.5 million held in a margin account related to our swap portfolio and $3.2 million held in restricted accounts at our investment properties. At December 31, 2010, we had restricted cash of $168.2 million, which consisted of $160.5 million of restricted cash in our five CDOs, $5.2 million of restricted cash in our leasing securitization and $2.5 million held in a margin account, related to our swap portfolio. The decrease of $25.4 million is primarily related to loan settlements in our CDOs and to a lesser extent, the expiration of the reinvestment period for two of our CDOs, Apidos CDO I and RREF CDO 2006-1, whereby any repaid principal will now be used to repay the principal balance of the notes outstanding.

Interest Receivable. At December 31, 2011, we had interest receivable of $8.8 million, which consisted of $8.8 million of interest on our securities, loans and lease receivables and $15,000 of interest earned on escrow and sweep accounts. At December 31, 2010, we had interest receivable of $6.3 million, which consisted of $6.3 million of interest on our securities, loans and lease receivables and $9,000 of interest earned on escrow and sweep accounts. The increase in interest receivable is due to the following:

an increase of $697,000 in interest receivable on our bank loan portfolio due to the acquisition of $334.8 million par value of bank loans through the closing of Apidos CLO VIII in October 2011,

a $1.2 million increase in interest receivable on structured notes due to the timing of when payments on structured notes are due and received, and

an increase of $317,000 in interest receivable on our CMBS held as a result of new purchases through our Wells Fargo facility in 2011.

(Back to Index)

(Back to Index)

Other Assets. The following table summarizes our other assets as of December 31, 2011 and 2010 (in thousands):

	December 31, 2011	December 31, 2010
Management fees receivable	$ 1,171	$ –
Other receivables	1,191	1,374
Prepaid assets	1,626	590
Principal paydown	105	468
Total	$ 4,093	$ 2,432

Other assets increased $1.7 million to $4.1 million as of December 31, 2011 from $2.4 million as of December 31, 2010. This increase resulted primarily from the following:

- an increase of $1.2 million in management fees receivable which are related to our investment in an asset management subsidiary which entitles us to collect senior, subordinated and incentive fees related to five collateralized loan obligations; and

- an increase of $1.0 million in prepaid assets which is primarily related to the acquisition of new real estate properties, as well as our directors' and officers' insurance policy and the timing of when we pay the related premium costs.

These increases were partially offset by a decrease of $360,000 in principal paydowns due to the timing of our receipt of payments on our leasing and bank loan portfolios and a decrease of $180,000 in other receivables which is principally due to receivables on the leasing portfolio that we had sold in 2011 in connection with the LCC transactions.

Hedging Instruments. Our hedges at December 31, 2011 and 2010 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. With interest rates at historically low levels and the forward curve projecting steadily increasing rates as well as the scheduled maturity of two hedges during 2012, we expect that the fair value of our hedges will modestly improve in 2012. We intend to continue to seek such hedges for our floating rate debt in the future. Our hedges at December 31, 2011 were as follows (in thousands):

	Benchmark rate	Notional value	Strike rate	Effective date	Maturity date	Fair value
CRE Swaps						
Interest rate swap	1 month LIBOR	$ 12,150	5.44%	06/26/07	03/25/12	(147)
Interest rate swap	1 month LIBOR	12,750	5.27%	07/25/07	08/06/12	(378)
Interest rate swap	1 month LIBOR	33,124	4.13%	01/10/08	05/25/16	(1,837)
Interest rate swap	1 month LIBOR	1,681	5.72%	07/12/07	10/01/16	(192)
Interest rate swap	1 month LIBOR	1,880	5.68%	07/13/07	03/12/17	(431)
Interest rate swap	1 month LIBOR	80,940	5.58%	06/26/07	04/25/17	(8,879)
Interest rate swap	1 month LIBOR	1,726	5.65%	07/05/07	07/15/17	(201)
Interest rate swap	1 month LIBOR	3,850	5.65%	07/26/07	07/15/17	(448)
Interest rate swap	1 month LIBOR	4,023	5.41%	08/10/07	07/25/17	(443)
Total CRE Swaps		152,124				(12,956)
CMBS Swaps						
Interest rate swap	1 month LIBOR	86	0.64%	02/23/11	11/01/13	–

Interest rate swap	1 month LIBOR		28	0.51%	03/18/11	11/01/13		–
Interest rate swap	1 month LIBOR		103	0.55%	03/28/11	11/01/13		–
Interest rate swap	1 month LIBOR		152	0.55%	04/15/11	11/18/13		–
Interest rate swap	1 month LIBOR		3,266	1.11%	04/26/11	01/15/14		(28)
Interest rate swap	1 month LIBOR		4,215	0.84%	03/31/11	01/18/14		(13)
Interest rate swap	1 month LIBOR		4,130	1.93%	02/14/11	05/01/15		(108)
Interest rate swap	1 month LIBOR		758	1.30%	07/19/11	03/18/16		(10)
Interest rate swap	1 month LIBOR		3,043	1.95%	04/11/11	03/18/16		(95)
Total CMBS Swaps			15,781					(254)
Total Interest Rate Swaps		$	167,905	4.87%			$	(13,210)

We had no interest rate cap agreements as of December 31, 2011. We had an interest rate cap agreement with a fair value of $60 and a notional amount of $14.8 million outstanding as of December 31, 2010 which reduced our exposure to variability in future cash flows attributable to LIBOR.

As of December 31, 2010, we had entered into hedges with a notional amount of $166.8 million and maturities ranging from July 2011 to July 2017. At December 31, 2010, the fair value on our interest rate swap agreements was ($13.3) million.

(Back to Index)

(Back to Index)

Apidos CLO VIII Warehouse Facility - In June 2011, we formed Apidos CLO VIII and entered into a warehouse facility provided by Citibank, N.A. to purchase bank loans to include in Apidos CLO VIII. This agreement, secured by our pledge of the preference shares we hold in Apidos CLO VIII, expired upon the closing of Apidos CLO VIII on October 13, 2011.

CMBS – Term Repurchase Facility. In February 2011, our wholly-owned subsidiaries, RCC Real Estate and RCC Commercial, entered into a master repurchase agreement with Wells Fargo Bank, National Association to be used as a warehouse facility to finance the purchase of highly-rated CMBS. We guaranteed RCC Real Estate and RCC Commercial's performance of their obligations under the repurchase agreement. We have certain financial covenants, one of which is to maintain a leverage ratio of no greater than 9.0 to 1.0 as defined in the agreement. We are in full compliance with all covenants as of December 31, 2011. At December 31, 2011, RCC Real Estate had borrowed $55.9 million, all of which we had guaranteed, less unamortized deferred debt issuance costs for a net of $55.4 million. At December 31, 2011, borrowings under the repurchase agreement were secured by CMBS with an estimated fair value of $64.3 million and had a weighted average interest rate of one-month LIBOR plus 1.25%, or 1.54%.

Revolving Credit Facility. On July 7, 2011, RCC and RCC Real Estate entered into a $10.0 million revolving credit facility with The Bancorp Bank. The facility will provide bridge financing for up to five business days which will enable us to fund real estate loans to third parties prior to their sale to our CRE CDOs. The facility is evidenced by a Revolving Judgment Note and Security Agreement to Bancorp Bank. The facility is secured by a pledge of $32.9 million par value of the Class A-1 notes of Resource Real Estate Funding CDO 2006-1, or RREF CDO 2006-1, which are owned by RCC Real Estate. The note becomes due and payable on September 30, 2012. We are in compliance with all covenants related to this facility as of December 31, 2011. There were no borrowings outstanding and we were in compliance with all covenants at December 31, 2011.

Collateralized Debt Obligations. As of December 31, 2011, we had executed and retained equity in six CDO transactions as follows:

In October 2011, we closed Apidos CLO VIII, a $350.0 million CLO transaction that provided financing for bank loans. The investments held by Apidos CLO VIII collateralized $317.6 million of senior notes issued by the CDO vehicle. Resource TRS III purchased a $15.0 million equity interest representing approximately 43% of the outstanding preference shares. At December 31, 2011, the notes issued to outside investors had a weighted average borrowing rate of 2.42%.

In September 2007, we closed Resource Real Estate Funding CDO 2007-1, or RREF CDO 2007-1, a $500.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2007-1 collateralized $458.8 million of senior notes issued by the CDO vehicle, of which RCC Real Estate, Inc., or RCC Real Estate, a subsidiary of ours, purchased 100% of the class H senior notes, class K senior notes, class L senior notes and class M senior notes for $68.0 million at closing, $5.0 million of the Class J senior notes in February 2008, an additional $2.5 million of the Class J senior notes in November 2009, and $11.9 million of the Class E senior notes, $11.9 million of the Class F senior notes and $7.3 million of the Class G senior notes in December 2009, $250,000 of the Class J senior notes in January 2010, $5.0 million of the Class A-2 senior notes in August 2011, and $5.0 million of the Class A-2 senior notes in September 2011. In addition, RREF 2007-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $41.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2011, the notes issued to outside investors, net of repurchased notes, had a weighted average borrowing rate of 0.85%.

In May 2007, we closed Apidos Cinco CDO, a $350.0 million CDO transaction that provided financing for bank loans. The investments held by Apidos Cinco CDO collateralized $322.0 million of senior notes issued by the

CDO vehicle. Resource Commercial II holds a $28.0 million equity interest representing 100% of the outstanding preference shares. At December 31, 2011, the notes issued to outside investors had a weighted average borrowing rate of 0.95%.

In August 2006, we closed RREF CDO 2006-1, a $345.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2006-1 collateralized $308.7 million of senior notes issued by the CDO vehicle. RCC Real Estate purchased 100% of the class J senior notes and class K senior notes for $43.1 million at closing and $7.5 million of the Class F senior notes in September 2009, $3.5 million of the Class E senior note and $4.0 million of the Class F senior notes in September 2009 and $20.0 million of the Class A-1 senior notes in February 2010. In addition, RREF 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $36.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2011, the notes issued to outside investors, net of repurchased notes, had a weighted average borrowing rate of 1.44%. The reinvestment period expired in September 2011 and the CDO has begun paying down the senior notes as principal is collected. Through December 31, 2011, $23.0 million of the Class A-1 senior notes was paid down.

In May 2006, we closed Apidos CDO III, a $285.5 million CDO transaction that provided financing for bank loans. The investments held by Apidos CDO III collateralized $262.5 million of senior notes issued by the CDO vehicle. RCC Commercial purchased a $23.0 million equity interest representing 100% of the outstanding preference shares. At December 31, 2011, the notes issued to outside investors had a weighted average borrowing rate of 0.99%.

(Back to Index)

(Back to Index)

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. RCC Commercial purchased a $28.5 million equity interest representing 100% of the outstanding preference shares. At December 31, 2011, the notes issued to outside investors had a weighted average borrowing rate of 1.00%. The reinvestment period expired in July 2011 and the CDO has begun paying down the senior notes as principal is collected. Through December 31, 2011, $5.5 million of the Class A-1 senior notes was paid down.

On June 21, 2011, we surrendered to the respective trustees, for cancellation without consideration, certain notes issued by RREF CDO 2007-1 and RREF CDO 2006-1. In RREF CDO 2007-1, we surrendered $7.5 million of the Class B notes, $6.5 million of the Class F notes, $6.25 million of the Class G notes and $10.625 million of the Class H notes. In RREF CDO 2006-1, we surrendered $6.9 million of the Class B notes, $7.7 million of the Class C notes, $5.52 million of the Class D notes, $7.0 million of the Class E notes and $5.25 million of the Class F notes. The surrendered notes were cancelled by the trustee under the applicable indentures, and the obligations due under those notes were deemed extinguished. The effect of these cancellations improves each respective CDO's performance with respect to its over-collateralization and interest coverage tests, with which they already complied before cancellation, as well as secures our long term interest in these structured vehicles.

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. 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 October 2009, we amended our unsecured junior subordinated debentures held by RCT I and RCT II with a total value outstanding of $51.5 million. The amendment provides for an interest rate increase of 2% (from LIBOR plus 3.95% to LIBOR plus 5.95%) on both issuances for a period of two years and a one-time restructuring fee of $250,000 in exchange for the waiver of financial covenants under our guarantee. The interest rate adjustment took effect as of October 1, 2009 and expired on September 30, 2011. The rates for RCT I and RCT II at December 31, 2011, were 4.32% and 4.38%, respectively and 6.25% and 6.24% at December 31, 2010, respectively. The covenant waiver expired on January 1, 2012. The junior subordinated debentures debt issuance costs are included in borrowings 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. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2011 were $450,000 and $467,000, respectively. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2010 were $590,000 and $604,000, respectively.

Stockholders' Equity

Stockholders' equity at December 31, 2011 was $429.7 million and gave effect to $14.3 million of unrealized losses on cash flow hedges and $32.0 million of unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive loss. Stockholders' equity at December 31, 2010 was $348.3 million and gave effect to $13.3 million of unrealized losses on cash flow hedges and $19.3 million of unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive loss. The increase in stockholders' equity during the year ended December 31, 2011 was principally due to the receipt of $46.6 million related to a common stock offering in March 2011 combined with $83.6 of proceeds from sales of our common stock through our DRIP in 2011.

Funds from Operations

We now evaluate our performance based on several performance measures, including Funds from Operations, or FFO, and Adjusted Funds from Operations, or AFFO, in addition to net income. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts as net income (computed in accordance with GAAP), excluding gains or losses on the sale of depreciable real estate, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization, and after adjustments for unconsolidated/ uncombined partnerships and joint ventures.

AFFO is a computation made by analysts and investors to measure a real estate company's cash flow generated by operations. We calculate AFFO by adding or subtracting from FFO: non-cash impairment losses resulting from fair value adjustments on financial instruments, non-cash provision for loan losses, straight-line rental effects, share based compensation, amortization of various deferred items and intangible assets, gains on debt extinguishment, several REIT tax planning adjustments considered non-recurring by management and capital expenditures that are related to our real estate owned.

(Back to Index)

(Back to Index)

Management believes that FFO and AFFO are appropriate measures of the Company's operating performance in that they are frequently used by analysts, investors and other parties in the evaluation of REITs. Management uses FFO and AFFO as measures of our operating performance, and believe they are also useful to investors, because they facilitate an understanding of our operating performance after adjustment for certain non-cash items, such as real estate depreciation, share-based compensation and various other items required by GAAP, and capital expenditures, that may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods.

While the our calculations of AFFO may differ from the methodology used for calculating AFFO by other REITs and our AFFO may not be comparable to AFFO reported by other REITs, we also believe that FFO and AFFO may provide us and our investors with an additional useful measure to compare its performance with some other REITs. Neither FFO nor AFFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore FFO and AFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor AFFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of its liquidity.

The following table reconciles GAAP net income to Funds from Operations and Adjusted Funds from Operations for the periods presented (in thousands):

	Year Ended December 31, 2011 (2)
Net income – GAAP	$ 37,716
Adjustments:	
Real estate depreciation and amortization	2,606
Impairment charges on repossessed real estate assets (1)	1,449
FFO	41,771
Adjustments:	
Non-cash items:	
Impairment losses on financial instruments	6,898
Provisions for loan losses	317
Straight line rental adjustments	(17)
Share-based compensation	2,526
Amortization of deferred costs (non real estate) and intangible assets	5,870
(Gains) on debt extinguishment	(3,875)
REIT tax planning adjustments (3)	11,751
Cash items:	
Capital expenditures	(1,296)
AFFO	$ 63,945
Weighted average shares – diluted	70,809
AFFO per share – diluted	$ 0.90

(1) Amount represents impairment charges recorded by us in connection with real estate debt converted to equity.
(2) Comparative FFO and AFFO data is not provided since we did not own depreciable real property during the comparable period in 2010.
(3) During the three months ended December 31, 2011, we took actions to remain in compliance with respect to its 75% REIT gross income test. First, we transferred two of its CLOs, with non-qualifying income, into a taxable REIT subsidiary for the period October 27, 2011 and ending on December 31, 2011. This transfer increased the

tax provision during the three months and year ended December 31, 2011 by $4.7 million. In addition, we sold several positions and generated tax losses to further reduce our non-qualifying income by $7.0 million for the year ended December 31, 2011. We believe these actions were unique to the 2011 75% REIT gross income test and do not anticipate the significant impact of these transactions to recur in 2012.

(Back to Index)

(Back to Index)

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 GAAP net income to estimated REIT taxable income for the periods presented (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Net income – GAAP	$37,716	$19,447	$6,339
Taxable REIT subsidiary's (loss) income	(6,033)	(9,833)	3,138
Adjusted net income	31,683	9,614	9,477
Adjustments:			
Share-based compensation to related parties	274	805	543
Capital carryover (utilization)/losses from the sale of securities	(23,274)	(5,013)	4,818
Provision for loan and lease losses unrealized	6,478	44,357	26,877
Asset impairments	4,649	26,638	13,471
Equity in income (loss) of real estate joint venture	2,540	(14,493)	–
Tax gain on sale of real estate joint venture	–	1,443	–
Investments in real estate	1,788	–	–
Deferral of extinguishment of debt income	–	–	(28,530)
Net book to tax adjustment for the inclusion of our taxable foreign REIT subsidiaries	(10,211)	(22,204)	(6,277)
Subpart F income limitation	–	–	9,872
Distributable earnings from nonconsolidating taxable REIT subsidiary	–	1,000	–
Other net book to tax adjustments	(90)	(1,423)	1,212
Estimated REIT taxable income	$13,837	$40,724	$31,463

We believe that a presentation of estimated REIT taxable income provides useful information to investors regarding our financial condition and results of operations as we use this measurement 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 estimated taxable earnings, we expect that our distributions may at times be more or less than our reported GAAP 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 TRS, if any such income exists, which is not included in REIT taxable income until distributed to us. There is no requirement that our domestic TRS distribute its earning to us. Estimated REIT taxable income, however, includes the taxable income of our foreign TRSs because we are generally required to recognize and report their taxable income on a current basis. 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.

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 estimated net REIT taxable income to holders of our common stock. This requirement can impact our liquidity and capital resources.

Liquidity and Capital Resources

For the year ended 2011, our principal sources of current liquidity were $46.6 million of net proceeds from our March 2011 offering and $83.6 million of proceeds from sales of common stock through our DRIP and funds available for reinvestment in existing CDO financings of $110.9 million at December 31, 2011. For the year ended 2010, our principal sources of current liquidity were $42.8 million of net proceeds from our May 2010 offering and $76.8 million of proceeds from sales of common stock through our DRIP and funds available in existing CDO financings of $160.5 million at December 31, 2010.

(Back to Index)

(Back to Index)

Our on-going liquidity needs consist principally of funds to make investments, including debt repurchases, make distributions to our stockholders and pay our operating expenses, including our management fees and debt service. Our ability to meet our on-going liquidity needs will be subject to our ability to generate cash from operations and, with respect to our investments, our ability to maintain and/or obtain additional debt financing and equity capital together with the funds referred to above. Historically, we have financed a substantial portion of our portfolio investments through CDOs that essentially match the maturity and repricing dates of these financing vehicles with the maturities and repricing dates of our investments. We derive substantial operating cash from our equity investments in our CDOs, which if the CDOs fail to meet certain tests, will cease. Through December 31, 2010, we have not experienced difficulty in maintaining our existing CDO financing and have passed all of the critical tests required by these financings. However, we cannot assure you that we will continue to meet all such critical tests in the future. If we are unable to renew, replace or expand our sources of existing 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.

The following table sets forth collateralized debt obligations – distributions and coverage test summary for the periods presented (in thousands):

		Cash Distributions Years Ended		Annualized Interest Coverage Cushion	Overcollateralization Cushion	
Name	CDO Type	December 31, 2011 (1) (actual)	December 31, 2010 (1) (actual)	As of December 31, 2011 (2) (3)	As of December 31, 2011 (4)	As of Initial Measurement Date
Apidos CDO I	CLO	$ 9,305	$ 7,695	$ 2,588	$ 14,187	$ 17,136
Apidos CDO III	CLO	$ 8,351	$ 6,552	$ 4,961	$ 9,634	$ 11,269
Apidos Cinco CDO	CLO	$ 9,941	$ 7,792	$ 4,924	$ 19,623	$ 17,774
RREF 2006-1	CRE CDO	$ 11,637	$ 8,929	$ 13,590	$ 53,698	$ 24,941
RREF 2007-1	CRE CDO	$ 10,743	$ 15,068	$ 8,806	$ 39,293	$ 26,032

(1) Distributions on retained equity interests in CDOs (comprised of note investment and preference share ownership).
(2) Interest coverage includes annualized amounts based on the most recent trustee statements.
(3) Interest coverage cushion represents the amount by which annualized interest income exceeds the annualized amount payable on all classes of CDO notes senior to our preference shares.
(4) Overcollateralization cushion represents the amount by which the collateral held by the CDO issuer exceeds the maximum amount required.

At February 29, 2012, after paying the 2011 fourth quarter dividend, our liquidity of $158.3 million consists of two primary sources:

unrestricted cash and cash equivalents of $44.7 million, restricted cash of $1.0 million in margin call accounts and $2.9 million in the form of real estate escrows, reserves and deposits; and capital available for reinvestment in our five CDO entities of $109.7 million, of which $1.6 million is designated to finance future funding commitments on CRE loans.

In addition, we have availability through two CRE term facilities to finance the purchase of highly-rated CMBS securities and originate commercial real estate loans of $38.6 million and $150.0 million, respectively.

Our leverage ratio may vary as a result of the various funding strategies we use. As of December 31, 2011 and 2010, our leverage ratio was 4.2 times and 4.4 times, respectively. The decrease in leverage ratio was primarily due to the offering proceeds received during our March 2011 offering, DRIP issuances and the repurchase of our CDO debt at substantial discounts during the year ended December 31, 2011 and was offset by our Wells Fargo CMBS repurchase facility and closing of our newest CLO, Apidos CLO VIII.

(Back to Index)

(Back to Index)

Contractual Obligations and Commitments

	Contractual Commitments (dollars in thousands) Payments due by period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
CDOs (1)	$1,668,049	$–	$–	$–	$1,668,049
Repurchase Agreements (2)	55,406	55,406	–	–	–
Unsecured junior subordinated debentures (3)	50,631	–	–	–	50,631
Revolving Credit Facility	–	–	–	–	–
Base management fees (4)	7,496	7,496	–	–	–
Total	$1,781,582	$62,902	$–	$–	$1,718,680

(1) Contractual commitments do not include $10.5 million, $13.9 million, $11.0 million, $61.1 million, $14.7 million and $25.5 million of interest expense payable through the non-call dates of July 2010, May 2011, September 2011, October 2013, August 2011 and September 2012, respectively, on Apidos CDO I, Apidos Cinco CDO, Apidos CDO III, Apidos CLO VIII, RREF CDO 2006-1 and RREF CDO 2007-1. The non-call date represents the earliest period under which the CDO assets can be sold, resulting in repayment of the CDO notes.
(2) Contractual commitments include $48,000 of interest expense payable through the maturity date of January 18, 2012 on our repurchase agreements.
(3) Contractual commitments do not include $49.2 million and $50.2 million of interest expense payable through the maturity dates of September 2036 and October 2036, respectively, on our trust preferred securities.
(4) Calculated only for the next 12 months based on our current equity, as defined in our management agreement. Our management agreement also provides for an incentive fee arrangement that is based on operating performance. Because the incentive fee is not a fixed and determinable amount, it is not included in this table.

At December 31, 2011, we had 18 interest rate swap contracts with a notional value of $167.9 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. See "– Financial Condition – Hedging Instruments." As of December 31, 2011, the average fixed pay rate of our interest rate hedges was 4.87% and our receive rate was one-month LIBOR, or 0.29%.

Off-Balance Sheet Arrangements

As of December 31, 2011, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or contractually narrow or limited purposes. Further, as of December 31, 2011, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or letter of intent to provide additional funding to any such entities.

We have certain unfunded commitments related to our commercial real estate loan portfolio that we may be required to fund in the future. Our unfunded commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs subject, in each case, to the borrower meeting specified criteria. Upon completion of the improvements or construction, we would receive additional loan interest income on the advanced amount. As of December 31, 2011, we had five loans with unfunded commitments totaling $5.2 million, of which $1.6 million will be funded by restricted cash in RREF CDO 2007-1.

On November 16, 2011, we together with LEAF Financial and LCC, subsidiaries of Resource America, entered into a stock purchase agreement and related agreements (collectively the “SPA”) with Eos Partners, L.P., a private investment firm, and its affiliates (“Eos”). In accordance with the SPA, we and Resource America have undertaken a contingent obligation with respect to the value of the equity on the balance sheet of LEAF Receivables Funding 3, a wholly-owned subsidiary of LCC which owns equipment, equipment leases and notes, see Note 19 “Related-Party Transactions” in the notes to consolidated financial statements.

(Back to Index)

(Back to Index)

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared by management in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires that we make 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 valuation of investment securities, accounting for derivative financial instruments and hedging activities, income taxes, allowance for loan and lease losses and variable interest entities. 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.

Valuation of Investment Securities

We classify our investment portfolio as either available-for-sale investments, trading 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. For a discussion of the basis of fair value analysis, and of the determination of whether an asset's valuation should be characterized as Level 1, Level 2 or Level 3, see Note 21, "Fair Value of Financial Instruments" in the notes to consolidated financial statements.

We report securities available-for-sale at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of December 31, 2011 and 2010, we had aggregate unrealized losses on our available-for-sale securities of $32.0 million and $19.3 million, respectively, which, if not recovered, may result in the recognition of future losses. To determine fair value, we use two methods, either a dealer quote or an internal valuation model, depending upon the current level of market activity.

For investment securities with higher levels of market activity, we obtain a quote from a dealer, which typically will be the dealer who sold us the security. We have been advised that, in formulating their quotes, dealers may use recent trades in the particular security, if any, market activity in similar securities, if any, or internal valuation models. These quotes are non-binding. Dependent upon how the dealers develop their quotes, market liquidity and levels of trading activity, we categorized these investment securities available-for-sale in Level 2 or 3 in the fair value hierarchy. We evaluate the reasonableness of the quotes we receive by applying our own valuation models. If there is a material difference between a quote we receive and the value indicated by our valuation models, we will evaluate the difference. As part of that evaluation, we will discuss the difference with the dealer, who may revise their quote based upon these discussions. Alternatively, we may revise our valuation models.

For investment securities with lower levels of market activity, we determine fair value based on taking a weighted average of the following three measures:

- dealer quotes, as described above;
- quotes on more actively-traded, higher rated securities issued in a similar time period, adjusted for differences in rating and seniority; and
- the value resulting from an internal valuation model using an income approach based upon an appropriate risk-adjusted yield, time value and projected losses using default assumptions based upon an historical analysis of underlying loan performance.

We are required 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.

Our investment securities-trading are reported at fair value. To determine fair value, we use dealer quotes or bids which are validated by applying an income approach that uses appropriate prepayment, default and recovery rates. We record any changes in fair value in on our results of operations as net realized and unrealized gain on investment securities-trading.

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.

(Back to Index)

(Back to Index)

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, 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 December 31, 2011, we had engaged in 18 interest rate swaps with a notional value of $167.9 million and a fair value of ($13.2) million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. As of December 31, 2010, we had engaged in 10 interest rate swaps with a notional value of $166.8 million and a fair value of ($13.3) 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. 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 interest rate swap contracts are carried on our consolidated balance sheets at fair value. Any ineffectiveness which arises during the hedging relationship must be recognized in interest expense or income 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 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 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 our statement of operations, potentially resulting in increased volatility in our earnings. We had no interest rate cap agreements at December 31, 2011. We had one non-designated interest rate cap agreement with a fair value of $0 and a notional amount of $14.8 million outstanding at December 31, 2010 which reduced our exposure to variability in future cash flows attributable to LIBOR.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

The tax rates we use to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which we expect the differences to reverse. We recognize effects of tax rate changes on deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws in net earnings in the period during which such changes are enacted. The future realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. We continually evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies. We must establish a valuation allowance unless we determine that it is more likely than not that we will ultimately realize the tax benefit associated with a deferred tax asset.

Allowance for Loan and Lease Losses

We maintain an allowance for loan and lease losses. Loans and leases held for investment are first individually evaluated for impairment, and then evaluated as a homogeneous pool as loans with substantially similar characteristics for impairment. We perform the reviews at least quarterly.

We consider an individual loan to be impaired when, based on current information and events, management believes it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, we increase the allowance for loan losses by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based on the present value of estimated cash flows; on market price, if available; or the fair value of the collateral less estimated disposition costs. When we consider a loan, or a portion thereof, uncollectible and pursuit of the collection is not warranted, we will record a charge-off or write-down of the loan against the allowance for credit losses.

(Back to Index)

(Back to Index)

Variable Interest Entities

We consolidate entities that are variable interest entities, or VIEs where we have determined that we are the primary beneficiary of such entities. Once it is determined that we hold a variable interest in a VIE, management performs a qualitative analysis to determine (i) if we have the power to direct the matters that most significantly impact the VIE's financial performance; and (ii) if we have the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive the benefits of the VIE that could potentially be significant to the VIE. If our variable interest possesses both of these characteristics, we are deemed to be the primary beneficiary and would be required to consolidate the VIE. This assessment must be done on an ongoing basis. The portions of these entities that we do not own are presented as noncontrolling interests as of the dates and for the periods presented in the consolidated financial statements. As of December 31, 2011, we determined that RREF CDO 2007-1, RREF CDO 2006-1, Apidos CDO I, Apidos CDO III and Apidos Cinco CDO and Apidos CLO VIII were VIEs and that we were the primary beneficiary.

Recent Accounting Pronouncements

In June 2011, the FASB issued guidance which changes the presentation of comprehensive income. It eliminates the option to present comprehensive income as part of the changes in stockholders' equity. In addition, it requires consecutive disclosure of comprehensive income either as part of the statement of net income or in a statement immediately following. Finally, the guidance requires disclosure on the face of the financial statements of any reclassifications between net income and other comprehensive income. The guidance is effective for fiscal years and periods within those years beginning after December 15, 2011. In December 2011, the FASB updated the guidance to defer the requirement related to the presentation of certain reclassification adjustments. Adoption will require adjusted disclosure of our comprehensive income.

In April 2011, the FASB issued guidance which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. The amendments in this guidance will be effective for interim and annual reporting periods beginning on or after December 15, 2011, and will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. We are currently evaluating the effect of the adoption on our consolidated financial statements.

In April 2011, the FASB issued guidance to clarify the disclosures regarding troubled-debt restructurings originally effective as of December 15, 2010. The new guidance surrounding troubled-debt restructuring was effective for interim and annual periods beginning after June 15, 2011. Adoption of this guidance required additional disclosures in the notes to our consolidated financial statements (see Note 12).

In January 2010, the FASB issued guidance that required new disclosures and clarified some existing disclosure requirements about fair value measurements. The pronouncement requires a reporting entity: (1) to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) to present separately information about purchases, sales, issuances and settlements in the reconciliation of fair value measurements using significant unobservable inputs. In addition, it clarified the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The new guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements which became effective for us in 2011 and required additional disclosures. The new guidance required enhanced disclosure in our footnotes (see Note 21).

(Back to Index)

(Back to Index)

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 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 balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2011 and 2010, 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.

Effect on Fair Value

A 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.

The following sensitivity analysis tables show, at December 31, 2011, 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):

	December 31, 2011		
	Interest rates fall 100 basis points	Unchanged	Interest rates rise 100 basis points
CMBS – private placement (1):			
Fair value	$121,534	$119,274	$117,101
Change in fair value	$2,260		$(2,173)
Change as a percent of fair value	1.89%		1.82%
Hedging instruments:			
Fair value	$(18,851)	$(13,210)	$(6,782)
Change in fair value	$(5,641)		$6,428
Change as a percent of fair value	42.70%		48.66%

(1) Includes the fair value of available-for-sale investments that are sensitive to interest rate change.

For purposes of the table, 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, 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.

(Back to Index)

(Back to Index)

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 fixed-rate commercial real estate mortgages and CMBS 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 CMBS 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 fixed-rate commercial real estate mortgages and CMBS and our borrowing which we discuss in "Financial Condition-Hedging Instruments."

(Back to Index)

(Back to Index)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(Back to Index)

(Back to Index)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Resource Capital Corp.

We have audited the accompanying consolidated balance sheets of Resource Capital Corp. (a Maryland corporation) and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in (collectively Resource Capital Corp. or the Company) equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits of the basic financial statements included the financial statement schedules listed in the index appearing under item 15 (a) 2. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resource Capital Corp. and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Resource Capital Corp.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2012 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
March 14, 2012

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$43,116	$29,488
Restricted cash	142,806	168,192
Investment securities, trading	38,673	17,723
Investment securities available-for-sale, pledged as collateral, at fair value	153,366	57,998
Investment securities available-for-sale, at fair value	4,678	5,962
Investment securities held-to-maturity, pledged as collateral	–	29,036
Property available-for-sale	2,980	4,444
Investment in real estate	48,027	–
Loans, pledged as collateral and net of allowances of $27.5 million and $34.2 million	1,772,063	1,443,271
Loans held for sale	3,154	28,593
Lease receivables, pledged as collateral, net of allowances of $0 and $70,000 and net of unearned income	–	109,612
Loans receivable–related party	9,497	9,927
Investments in unconsolidated entities	47,899	6,791
Dividend reinvestment plan proceeds receivable	–	10,000
Interest receivable	8,836	6,330
Deferred tax asset	626	4,401
Intangible assets	19,813	–
Other assets	4,093	2,432
Total assets	$2,299,627	$1,934,200
LIABILITIES		
Borrowings	$1,808,986	$1,543,251
Distribution payable	19,979	14,555
Accrued interest expense	3,260	1,618
Derivatives, at fair value	13,210	13,292
Accrued tax liability	12,567	30
Deferred tax liability	5,624	9,798
Accounts payable and other liabilities	6,311	3,330
Total liabilities	1,869,937	1,585,874
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 100,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, par value $0.001: 500,000,000 shares authorized; 79,877,516 and 58,183,425 shares issued and outstanding (including 1,428,931 and 534,957 unvested restricted shares)	80	58
Additional paid-in capital	659,700	528,373
Accumulated other comprehensive loss	(46,327)	(33,918)
Distributions in excess of earnings	(183,763)	(146,187)
Total stockholders' equity	429,690	348,326
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,299,627	$1,934,200

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	December 31,		
	2011	2010	2009
REVENUES			
Interest income:			
Loans	$86,739	$77,694	$85,857
Securities	12,744	11,434	7,225
Leases	–	11,306	4,336
Interest income – other	10,711	3,477	175
Total interest income	110,194	103,911	97,593
Interest expense	30,431	36,466	45,427
Net interest income	79,763	67,445	52,166
Rental income	3,656	–	–
Dividend income	2,955	–	–
Fee income	7,789	–	–
Total revenues	94,163	67,445	52,166
OPERATING EXPENSES			
Management fees – related party	11,022	13,216	8,363
Equity compensation – related party	2,526	2,221	1,240
Professional services	3,791	3,627	3,866
Insurance	658	759	828
Rental operating expense	2,743	46	–
General and administrative	3,950	3,015	1,764
Depreciation on operating leases	–	4,003	–
Depreciation and amortization	4,619	–	–
Income tax expense	12,036	5,721	(2)
Total operating expenses	41,345	32,608	16,059
	52,818	34,837	36,107
OTHER (EXPENSE) REVENUE			
Net impairment losses recognized in earnings	(6,898)	(26,804)	(13,471)
Net realized gain on investment securities available-for-sale and loans	2,622	4,821	1,890
Net realized and unrealized gain on investment securities, trading	858	14,791	–
Provision for loan and lease losses	(13,896)	(43,321)	(61,383)
Gain on the extinguishment of debt	3,875	34,610	44,546
Other (expense) income	(1,663)	513	(1,350)
Total other expense	(15,102)	(15,390)	(29,768)
NET INCOME	$37,716	$19,447	$6,339
NET INCOME PER SHARE – BASIC	$0.54	$0.41	$0.25
NET INCOME PER SHARE – DILUTED	$0.53	$0.41	$0.25

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC	70,410,131	47,715,082	25,205,403
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED	70,809,088	47,907,281	25,355,821
DIVIDENDS DECLARED PER SHARE	$1.00	$1.00	$1.15

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2011, 2010 and 2009
(in thousands, except share and per share data)

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity	Comprehensive (Loss)/Income
Balance, January 1, 2009	25,344,867	$26	$356,103	$ (80,707)	$–	$(89,117)	$ 186,305	
Proceeds from common stock offering	10,294,455	10	46,315	–	–	–	46,325	
Proceeds from dividend reinvestment and stock purchase plan	1,895,043	1	8,994	–	–	–	8,995	
Offering costs	–	–	(2,964)	–	–	–	(2,964)	
Repurchase and retirement of treasury shares	(1,400,000)	(1)	(5,038)	–	–	–	(5,039)	
Stock based compensation	419,563		867	–	–	–	867	
Amortization of stock based compensation	–	–	1,240	–	–	–	1,240	
Forfeiture of unvested stock	(8,191)	–	–	–	–	–	–	
Net income	–	–	–	–	6,339	–	6,339	$ 6,339
Securities available-for-sale, fair value adjustment, net	–	–	–	(729)	–	–	(729)	(729)
Designated derivatives, fair value adjustment	–	–	–	19,282	–	–	19,282	19,282
Distributions on common stock	–	–	–	–	(6,339)	(25,452)	(31,791)	
Comprehensive income	–	–	–	–	–	–	–	$ 24,892
Balance, January 1, 2010	36,545,737	$36	$405,517	$ (62,154)	$–	$(114,569)	$ 228,830	
Proceeds from dividend	12,422,956	12	76,797	–	–	–	76,809	

reinvestment and stock purchase plan								
Proceeds from common stock offering	8,625,000	9	45,273	–	–	–	45,282	
Offering costs	–	–	(2,875)	–	–	–	(2,875)	
Stock based compensation	589,732	1	1,440	–	–	–	1,441	
Amortization of stock based compensation	–	–	2,221	–	–	–	2,221	
Net income	–	–	–	–	19,447	–	19,447	$ 19,447
Securities available-for-sale, fair value adjustment, net	–	–	–	28,329	–	–	28,329	28,329
Designated derivatives, fair value adjustment	–	–	–	(93)	–	–	(93)	(93)
Distributions on common stock	–	–	–	–	(19,447)	(31,618)	(51,065)	
Comprehensive income	–	–	–	–	–	–	–	$ 47,683
Balance, January 1, 2011	58,183,425	$58	$528,373	$ (33,918)	$–	$ (146,187)	$ 348,326	
Proceeds from dividend reinvestment and stock purchase plan	13,511,300	14	83,561	–	–	–	83,575	
Proceeds from common stock offering	6,900,000	7	47,603	–	–	–	47,610	
Offering costs	–		(1,274)	–	–	–	(1,274)	
Related party debt forgiveness	–	–	(1,552)	–	–		(1,552)	
Stock based compensation	1,286,593	1	463	–	–	–	464	
Amortization of stock based compensation	–		2,526	–	–	–	2,526	
Forfeitures	(3,802)	–	–	–	–	–	–	
Net income	–	–	–	–	37,716	–	37,716	$ 37,716
Securities available-for-sale, fair value adjustment, net	–	–	–	(12,718)	–	–	(12,718)	(12,718)
	–	–	–	309	–	–	309	309

Designated derivatives, fair vaule adjustment								
Distributions on common stock	–	–	–	–	(37,716)	(37,576)	(75,292)	
Comprehensive income	–	–	–	–	–	–	–	$ 25,307
Balance, December 31, 2011	79,877,516	$ 80	$ 659,700	$ (46,327)	$ –	$ (183,763)	$ 429,690	

The accompanying notes are an integral part of this statement

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31, 2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$37,716	$19,447	$6,339
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	13,896	43,321	61,383
Depreciation of real estate investments	729	–	–
Amortization of intangible assets	3,890	–	–
Amortization of term facilities	570	875	1,355
Depreciation on operating leases	–	4,003	–
Accretion of net discounts on loans held for investment	(15,588)	(18,672)	(8,719)
Accretion of net discounts on securities available-for-sale	(3,698)	–	–
Amortization of discount on notes of CDOs	274	1,963	1,032
Amortization of debt issuance costs on notes of CDOs	3,341	4,226	4,058
Amortization of stock-based compensation	2,526	2,221	1,240
Amortization of terminated derivative instruments	227	387	499
Deferred income tax benefits	(398)	5,397	–
Non-cash incentive compensation to the Manager	430	1,098	1,143
Purchase of securities, trading	(38,904)	(16,317)	–
Principal payments on securities, trading	643	37	–
Proceeds from sales of securities, trading	18,131	13,357	–
Net realized and unrealized gain on investment securities-trading	(858)	(14,791)	–
Unrealized losses on non-designated derivative instruments	–	46	95
Net realized gains on investments	(2,622)	(4,821)	(1,890)
Net impairment losses recognized in earnings	6,898	26,804	13,471
Gain on the extinguishment of debt	(3,875)	(34,610)	(44,546)
Changes in operating assets and liabilities:			
(Increase) decrease in restricted cash	(5,628)	(6,543)	10,596
(Increase) decrease in interest receivable, net of purchased interest	(2,513)	(701)	2,697
Decrease in accounts receivable	–	–	424
Decrease in principal paydowns receivable	363	616	–
Increase in management fee payable	974	25	474
Increase (decrease) in security deposits	80	(264)	(791)
Increase in accounts payable and accrued liabilities	15,370	104	2,714
Increase (decrease) in accrued interest expense	1,696	181	(3,168)
Increase in other assets	(633)	(6,855)	(1,784)
Net cash provided by operating activities	33,037	20,534	46,622
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in restricted cash	31,014	(76,524)	(35,327)
Purchase of securities available-for-sale	(117,044)	(28,697)	(28,958)

Principal payments on securities available-for-sale	11,810	1,240	21
Proceeds from sale of securities available-for-sale	13,747	19,144	1,909
Investment in unconsolidated entity	(4,762)	(3,186)	(2,066)
Investments in real estate assets	(689)	–	–
Equity contribution to VIE	–	(7,333)	–
Purchase of loans	(970,309)	(340,355)	(243,786)
Principal payments received on loans	424,600	316,400	177,589
Proceeds from sale of loans	212,042	94,419	130,078
Purchase of investments in real estate	(19,299)	–	–
Proceeds from sale of real estate	1,464	–	–
Purchase of lease receivables	–	(28,161)	–
Payments received on lease receivables	–	13,985	8,655

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(in thousands)

	Years Ended December 31, 2011	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES: (Continued)			
Proceeds from sale of lease receivables	–	1,579	2,125
Purchase of intangible asset	(21,213)	–	–
Investment in loans – related parties	(10,000)	(10,000)	–
Payments received on loans – related parties	10,430	73	–
Distribution from unconsolidated entities	–	–	–
Proceeds from sale of interest in subsidiary	–	–	7,545
Net cash (used in) provided by investing activities	(438,209)	(47,416)	17,785
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuances of common stock (net of offering costs of $1,263, $2,772 and $2,964)	46,347	42,510	43,362
Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of $11, $103, and $0)	83,564	76,706	8,995
Repurchase of common stock	–	–	(5,040)
Proceeds from borrowings:			
Repurchase agreements	55,852	–	18
Collateralized debt obligations	323,244	–	–
Mortgage Payable	13,600	–	–
Secured term facility	–	6,500	–
Payments on borrowings:			
Repurchase agreements	–	–	(17,108)
Collateralized debt obligations	(28,542)	–	–
Secured term facility	–	(369)	(13,395)
Equipment-backed securities notes	–	(18,046)	–
Repurchase of issued bonds	(6,125)	(56,740)	(10,974)
Settlement of derivative instruments	–	–	–
Payment of debt issuance costs	(6,385)	(502)	(293)
Proceeds from CDO retained notes	7,114	–	–
Distributions paid on common stock	(69,869)	(45,680)	(32,564)
Net cash provided by (used in) financing activities	418,800	4,379	(26,999)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,628	(22,503)	37,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,488	51,991	14,583
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$43,116	$29,488	$51,991
SUPPLEMENTAL DISCLOSURE:			
Interest expense paid in cash	$32,596	$37,911	$48,138
Income taxes paid in cash	$–	$–	$–

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Resource Capital Corp. and subsidiaries' (collectively the ''Company'') principal business activity is to purchase and manage a diversified portfolio of commercial real estate-related assets and commercial finance assets. The Company's investment activities are managed by Resource Capital Manager, Inc. (''Manager'') pursuant to a management agreement (the ''Management Agreement''). The Manager is a wholly-owned indirect subsidiary of Resource America, Inc. ("Resource America") (NASDAQ: REXI). The following subsidiaries are consolidated in the Company's financial statements:

RCC Real Estate, Inc. ("RCC Real Estate") holds real estate investments, including commercial real estate loans, commercial real estate-related securities and investments in real estate. RCC Real Estate owns 100% of the equity of the following variable interest entities ("VIEs"):

- Resource Real Estate Funding CDO 2006-1 ("RREF CDO 2006-1"), a Cayman Islands limited liability company and qualified real estate investment trust ("REIT") subsidiary ("QRS"). RREF CDO 2006-1 was established to complete a collateralized debt obligation ("CDO") issuance secured by a portfolio of commercial real estate loans and commercial mortgage-backed securities ("CMBS").

- Resource Real Estate Funding CDO 2007-1 ("RREF CDO 2007-1"), a Cayman Islands limited liability company and QRS. RREF CDO 2007-1 was established to complete a CDO issuance secured by a portfolio of commercial real estate loans, commercial mortgage-backed securities and property available-for-sale.

RCC Commercial, Inc. ("RCC Commercial") holds bank loan investments. RCC Commercial owns 100% of the equity of the following VIEs:

- Apidos CDO I, Ltd. ("Apidos CDO I"), a Cayman Islands limited liability company and taxable REIT subsidiary ("TRS"). Apidos CDO I was established to complete a CDO issuance secured by a portfolio of bank loans and asset-backed securities ("ABS").

- Apidos CDO III, Ltd. ("Apidos CDO III"), a Cayman Islands limited liability company and TRS. Apidos CDO III was established to complete a CDO issuance secured by a portfolio of bank loans and ABS.

RCC Commercial II, Inc. ("Commercial II") holds bank loan investments and commercial real estate-related securities. Commercial II owns 100% of the equity of the following VIE:

- Apidos Cinco CDO, Ltd. ("Apidos Cinco CDO"), a Cayman Islands limited liability company and TRS. Apidos Cinco CDO was established to complete a CDO issuance secured by a portfolio of bank loans and ABS.

Resource TRS, Inc. ("Resource TRS"), a TRS directly owned by the Company, holds the Company's equity investment in a leasing company and holds all of its structured notes.

Resource TRS II, Inc. ("Resource TRS II"), a TRS directly owned by the Company, holds the Company's interests in bank loan CDOs not originated by the Company. Resource TRS II owns 100% of the equity of the following VIE:

-

Resource Capital Asset Management ("RCAM"), a domestic limited liability company, is entitled to collect senior, subordinated, and incentive fees related to five CDO issuers to which it provides management services through Apidos Capital Management, a subsidiary or Resource America.

Resource TRS III, Inc. ("Resource TRS III"), a TRS directly owned by the Company, holds the Company's interests in bank loan CDOs originated by the Company. Resource TRS III owns 43% of the equity of the following VIE:

- Apidos CLO VIII, Ltd ("Apidos CLO VIII"), a Cayman Islands limited liability company and TRS. Apidos CLO VIII was established to complete a CDO issuance secured by a portfolio of bank loans.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company.

All inter-company transactions and balances have been eliminated.

(Back to Index)

(Back to Index)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates affecting the accompanying consolidated financial statements include the net realizable and fair values of the Company's investments and derivatives, the estimated life used to calculate depreciation, amortization, and accretion of premiums and discounts, respectively, on investments and provisions for loan and lease losses.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At December 31, 2011 and 2010, this included $4.8 million and $2.6 million, respectively, held in a prime brokerage account, $26.0 million and $25.6 million, respectively, held in a money market account, $12.0 million and $1.3 million, respectively, held in checking accounts, and $299,000 and $0, respectively, held in accounts at the Company's investment properties.

Investment Securities

The Company classifies its investment portfolio as trading, available-for-sale or held-to-maturity. The Company, from time to time, may sell any of its investments due to changes in market conditions or in accordance with its investment strategy.

The Company's investment securities, trading are reported at fair value (see Note 21). To determine fair value, the Company uses dealer quotes or bids which are validated using an income approach utilizing appropriate prepayment, default, and recovery rates. Any changes in fair value are recorded in the Company's results of operations as net realized and unrealized gain (loss) on investment securities, trading.

The Company's investment securities available-for-sale are reported at fair value (see Note 21). To determine fair value, the Company uses two methods, either a dealer quote or an internal valuation model, depending upon the current level of market activity.

For securities with higher levels of market activity, the Company obtains a quote from a dealer, which typically will be the dealer who sold the Company the security. The Company has been advised that, in formulating their quotes, dealers may use recent trades in the particular security, if any, market activity in similar securities, if any, or internal valuation models. These quotes are non-binding. Based on how dealers develop their quotes, market liquidity and levels of trading, the Company categorizes these investments as either Level 2 or Level 3 in the fair value hierarchy. The Company evaluates the reasonableness of the quotes it receives by applying its own valuation models. If there is a material difference between a quote the Company receives and the value indicated by its valuation models, the Company will evaluate the difference. As part of that evaluation, the Company will discuss the difference with the dealer, who may revise its quote based upon these discussions. Alternatively, the Company may revise its valuation models.

For investment securities available-for-sale with lower levels of market activity, the Company determines fair value based on taking a weighted average of the following three measures:

- dealer quotes, as described above;
- quotes on more actively-traded, higher-rated securities issued in a similar time period, adjusted for differences in rating and seniority; and
- the value resulting from an internal valuation model using an income approach based upon an appropriate risk-adjusted yield, time value and projected losses using default assumptions based upon an historical analysis of underlying loan performance.

(Back to Index)

(Back to Index)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Investment Securities – (Continued)

On a quarterly basis, the Company evaluates its available-for-sale investments for other-than-temporary impairment. An available-for-sale investment is impaired when its fair value has declined below its amortized cost basis. An impairment is considered other-than-temporary when the amortized cost basis of the investment will not be recovered over its remaining life. In addition, the Company's intent to sell as well as the likelihood that the Company will be required to sell the security before the recovery of the amortized cost basis is considered. Where credit quality is believed to be the cause of the other-than-temporary impairment, that component of the impairment is recognized as an impairment loss in the statement of operations. Where other market components are believed to be the cause of the impairment, that component of the impairment is recognized on the balance sheet as other comprehensive loss.

Investment securities transactions are recorded on the trade date. Realized gains and losses on investment securities are determined on the specific identification method.

Investment Interest Income Recognition

Interest income on the Company's mortgage-backed and other asset-backed securities is accrued using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. Premiums and discounts are amortized or accreted into interest income over the lives of the securities also using the effective yield method, adjusted for the effects of estimated prepayments. For an investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires the Company to make estimates of future prepayment rates for its investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that the Company uses directly impact the estimated remaining lives of its investments. Actual prepayment estimates are reviewed as of each quarter end or more frequently if the Company becomes aware of any material information that would lead it to believe that an adjustment is necessary. If prepayment estimates are incorrect, the amortization or accretion of premiums and discounts may have to be adjusted, which would have an impact on future income.

Loans

The Company acquires loans through direct origination, through the acquisition of participations in commercial real estate loans and corporate leveraged loans in the secondary market and through syndications of newly originated loans. Loans are held for investment; therefore, the Company initially records them at their acquisition price, and subsequently, accounts for them based on their outstanding principal plus or minus unamortized premiums or discounts. The Company may sell a loan held for investment where the credit fundamentals underlying a particular loan have changed in such a manner that the Company's expected return on investment may decrease. Once the determination has been made by the Company that it no longer will hold the loan for investment, the Company identifies these loans as "Loans held for sale" and will account for them at the lower of amortized cost or fair value.

Loan Interest Income Recognition

Interest income on loans includes interest at stated rates adjusted for amortization or accretion of premiums and discounts. Premiums and discounts are amortized or accreted into income using the effective yield method. If a loan with a premium or discount is prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase to interest income. In addition, the Company defers loan origination fees and loan origination costs and recognizes them over the life of the related loan against interest income using the effective yield method.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Allowance for Loan Loss

The Company maintains an allowance for loan loss. Loans held for investment are first individually evaluated for impairment so specific reserves can be applied. Loans for which a specific reserve is not applicable are then evaluated for impairment as a homogeneous pool of loans with substantially similar characteristics so that a general reserve can be established, if needed. The reviews are performed at least quarterly.

The Company considers a loan to be impaired if one of two conditions exists. The first condition is if, based on current information and events, management believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The second condition is if the loan is deemed to be a troubled-debt restructuring ("TDR") where a concession has been given to a borrower in financial difficulty. These TDRs may not have an associated specific loan loss allowance if the principal and interest amount is considered recoverable based on current market conditions, expected collateral performance and / or guarantees made by the borrowers.

When a loan is impaired under either of these two conditions, the allowance for loan losses is increased by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based on the present value of estimated cash flows; on market price, if available; or on the fair value of the collateral less estimated disposition costs. When a loan, or a portion thereof, is considered uncollectible and pursuit of collection is not warranted, the Company will record a charge-off or write-down of the loan against the allowance for loan losses.

An impaired loan may remain on accrual status during the period in which the Company is pursuing repayment of the loan; however, the loan would be placed on non-accrual status at such time as (i) management believes that scheduled debt service payments will not be met within the coming 12 months; (ii) the loan becomes 90 days delinquent; (iii) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (iv) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. While on non-accrual status, the Company recognizes interest income only when an actual payment is received.

Comprehensive Income/(Loss)

Comprehensive loss for the Company includes net income and the change in net unrealized gains/(losses) on available-for-sale securities and derivative instruments used to hedge exposure to interest rate fluctuations and protect against declines in the market value of assets resulting from general market trends.

Income Taxes

The Company operates in such a manner as to qualify as a real estate investment trust ("REIT") under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"); therefore, applicable REIT taxable income is included in the taxable income of its shareholders, to the extent distributed by the Company. To maintain REIT status for federal income tax purposes, the Company is generally required to distribute at least 90% of its REIT taxable income to its shareholders as well as comply with certain other qualification requirements as defined under the Code. As a REIT, the Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year.

Taxable income, from non-REIT activities managed through the Company's taxable REIT subsidiaries, is subject to federal, state and local income taxes. The Company's taxable REIT subsidiaries' income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred income taxes are recognized for the temporary differences between the financial reporting basis and tax basis of assets and liabilities.

Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, the Company's 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 at the corporate level because their activities in the United States are limited to trading in stock and securities for their own account. Therefore, despite their status as taxable REIT subsidiaries, they generally will not be subject to corporate tax on their earnings and no provision for income taxes is required; however, because they are "controlled foreign corporations," the Company will generally be required to include Apidos CDO I's, Apidos CDO III's and Apidos Cinco CDO's current taxable income in its calculation of REIT taxable income.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Income Taxes – (Continued)

On October 27, 2011, the Company reorganized the ownership structure of Apidos CDO I and Apidos CDO III. As a result, for the period January 1, 2011 through October 26, 2011, the earnings from Apidos CDO I and Apidos CDO III are included the Company's calculation of REIT taxable income. For the period October 27, 2011 and ending on December 31, 2011, the earnings from Apidos CDO I and Apidos CDO III are excluded from the Company's calculation of REIT taxable income and are subject to corporate tax. Accordingly, a provision for income taxes for the earnings from October 27, 2011 through December 31, 2011 has been recorded.

On October 13, 2011, the Company acquired approximately 43% of the equity of Apidos CLO VIII, which is a foreign TRS, organized as an exempted company incorporated with limited liability under the laws of the Cayman Islands. This equity is directly owned by a domestic TRS of the Company; therefore, its earnings are excluded from the Company's calculation of REIT taxable income and are subject to corporate tax. Accordingly, a provision for income taxes has been recorded.

Stock Based Compensation

Issuances of restricted stock and options are accounted for using the fair value based methodology whereby the fair value of the award is measured on the grant date and expensed monthly to equity compensation expense-related party on the consolidated statements of operations with a corresponding entry to additional paid-in capital. For issuances to the Company's Manager and to non-employees, the unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. For issuances to the Company's five non-employee directors, the amount is not remeasured under the fair value-based method. The compensation for each of these issuances is amortized over the service period and included in equity compensation expense.

Net Income Per Share

The Company calculates basic income per share by dividing net income for the period by weighted-average shares of its common stock, including vested restricted stock and participating securities, outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options and unvested restricted stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

Derivative Instruments

The Company's policies permit it to enter into derivative contracts, including interest rate swaps and interest rate caps, to add stability to its interest expense and to manage its exposure to interest rate movements or other identified risks. The Company has designated these transactions as cash flow hedges. The contracts or hedge instruments are evaluated at inception and at subsequent balance sheet dates to determine if they qualify for hedge accounting which requires that the Company recognize all derivatives on the balance sheet at fair value. The Company records changes in the estimated fair value of the derivative in other comprehensive income to the extent that it is effective. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Investments in Real Estate

Investments in real estate are carried net of accumulated depreciation. Costs directly related to the acquisition are expensed as incurred. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Costs related to the improvement of the real property are capitalized and depreciated over their useful life.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Investments in Real Estate – (Continued)

Acquisitions of real estate assets and any related intangible assets are recorded initially at fair value under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, "Business Combinations." The Company allocates the purchase price of its investments in real estate to land, building, site improvements, the value of in-place leases and the value of above or below market leases. The value allocated to above or below market leases is amortized over the remaining lease term as an adjustment to rental income. The Company amortizes the value allocated to in-place leases over the weighted average remaining lease term to depreciation and amortization expense. The Company depreciates real property using the straight-line method over the estimated useful lives of the assets as follows:

Category	Term
Building	25 – 40 years
Site improvements	Lesser of the remaining life of building or useful life

Long-Lived and Intangible Assets

Long-lived assets and certain identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the long-lived asset's use and eventual disposition. If impairment has occurred, the loss will be measured as the excess of the carrying amount of the asset over the fair value of the asset.

Other than an impairment charge of $1.7 million the Company took on conversion of a loan investment into equity of a real estate property in June 2011. No impairment charges were recorded on the Company's investment in real estate or intangible assets during the year ended December 31, 2011.

Recent Accounting Standards

In June 2011, the FASB issued guidance which changes the presentation of comprehensive income. It eliminates the option to present comprehensive income as part of the changes in stockholders' equity. In addition, it requires consecutive disclosure of comprehensive income either as part of the statement of net income or in a statement immediately following. Finally, the guidance requires disclosure on the face of the financial statements of any reclassifications between net income and other comprehensive income. The guidance is effective for fiscal years and periods within those years beginning after December 15, 2011. In December 2011, the FASB updated the guidance to defer the requirement related to the presentation of certain reclassification adjustments. Adoption will require adjusted disclosure of the Company's comprehensive income.

In April 2011, the FASB issued guidance which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. The amendments in this guidance will be effective for interim and annual reporting periods beginning on or after December 15, 2011, and will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is currently evaluating the effect of the adoption on its consolidated financial statements.

In April 2011, the FASB issued guidance to clarify the disclosures regarding TDRs originally effective as of December 15, 2010. The new guidance surrounding TDRs was effective for interim and annual periods beginning after June 15, 2011. Adoption of this guidance required additional disclosures in the notes to the Company's consolidated financial statements (see Note 13).

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Recent Accounting Standards – (Continued)

In January 2010, the FASB issued guidance that required new disclosures and clarified some existing disclosure requirements about fair value measurements. The pronouncement requires a reporting entity: (1) to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) to present separately information about purchases, sales, issuances and settlements in the reconciliation of fair value measurements using significant unobservable inputs. In addition, it clarified the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The new guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements which became effective for the Company in 2011 and required additional disclosures. The new guidance required enhanced disclosure in the Company's footnotes (see Note 22).

Reclassifications

Certain reclassifications have been made to the 2010 and 2009 consolidated financial statements to conform to the 2011 presentation.

NOTE 3 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Non-cash investing activities include the following:			
Transfer of lease receivables	$–	$–	$89,763
Acquisition of lease receivables	$–	$(100,305)	$–
Contribution of lease receivables and other assets	$117,840	$–	$–
Conversion of equity in LEAF Funding 3 to preferred stock and warrants	$(21,000)	$–	$–
Increase in bank loan investments	$–	$–	$1,148
Decrease in bank loan investments	$–	$–	$(1,148)
Net purchase of loans on warehouse line	$(52,735)	$–	$–
Loans, pledged as collateral	$–	$(4,444)	$–
Property available-for-sale	$–	$4,444	$–
Acquisition of real estate investments	$(33,073)	$–	$–
Conversion of loans to investment in real estate	$34,550	$–	$–
Conversion of PIK interest in securities available-for-sale	$2,364	$–	$–
Non-cash financing activities include the following:			

Distributions on common stock declared but not paid	$19,979	$14,555	$9,170
Issuance of restricted stock	$1,203	$338	$242
Transfer of secured term facility	$–	$–	$(82,319)
Assumption of equipment-backed securitized notes	$–	$112,223	$–
Settlement of a secured term facility	$–	$(6,131)	$–
Settlement of debt issuance costs	$–	$(1,012)	$–
Contribution of equipment-backed securitized notes and other liability	$(96,840)	$–	$–
Acquisition of loans on warehouse line	$52,735	$–	$–

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 4 – RESTRICTED CASH

Restricted cash as of December 31, 2011 consisted of $138.1 million held in six consolidated CDO trusts, $3.2 million held in restricted accounts at the Company's investment properties and $1.5 million in cash collateralizing outstanding margin calls on the Company's cash flow hedges. Restricted cash as of December 31, 2010 consisted of $160.5 million held in five consolidated CDO trusts, $5.2 million held in a securitization of lease receivables and $2.5 million in cash collateralizing outstanding margin calls on the Company's cash flow hedges.

NOTE 5 – INVESTMENT SECURITIES-TRADING

The following table summarizes the Company's structured notes and residential mortgage-back securities ("RMBS"), which are classified as investment securities, trading and carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011:				
Structured notes	$27,345	$6,098	$(1,890)	$31,553
RMBS	8,729	100	(1,709)	7,120
Total	$36,074	$6,198	$(3,599)	$38,673
December 31, 2010:				
Structured notes	$7,984	$9,739	$–	$17,723
Total	$7,984	$9,739	$–	$17,723

The Company purchased 27 securities and sold 11 securities during the year ended December 31, 2011, for a realized gain of $8.0 million. The Company held 27 investments securities-trading as of December 31, 2011. The Company purchased 26 securities and sold 13 securities during the year ended December 31, 2010, for a realized gain of $5.1 million. The Company held 11 investments securities-trading as of December 31, 2010.

NOTE 6 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE

In November 2011, the investment securities held-to-maturity were reclassified to investment securities available-for-sale since the Company no longer intended to hold these positions until maturity. Comparable prior year data for the Company's ABS can be found in Note 7.

The following table summarizes the Company's investment securities including those pledged as collateral and classified as available-for-sale, which are carried at fair value (in thousands):

	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011:				
CMBS	$161,512	$1,192	$(29,884)	$132,820
ABS	28,513	215	(3,527)	25,201
Other asset-backed	–	23	–	23
Total	$190,025	$1,430	$(33,411)	$158,044

December 31, 2010:				
CMBS	$83,223	$7,292	$(26,578)	$63,937
ABS	–	–	–	–
Other asset-backed	–	23	–	23
Total	$83,223	$7,315	$(26,578)	$63,960

(1) As of December 31, 2011 and 2010, $153.4 million and $58.0 million, respectively, of securities were pledged as collateral security under related financings.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 6 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (Continued)

The following table summarizes the estimated maturities of the Company's CMBS and ABS according to their estimated weighted average life classifications (in thousands, except percentages):

Weighted Average Life	Fair Value		Amortized Cost	Weighted Average Coupon
December 31, 2011:				
Less than one year	$ 61,137	(1)	$ 65,485	2.73%
Greater than one year and less than five years	69,376		91,826	4.75%
Greater than five years	25,596		29,527	3.90%
Greater than ten years	1,935		3,187	3.84%
Total	$ 158,044		$ 190,025	3.82%
December 31, 2010:				
Less than one year	$ 3,264	(2)	$ 6,911	1.51%
Greater than one year and less than five years	29,004		46,138	3.45%
Greater than five years	31,692		30,174	5.64%
Total	$ 63,960		$ 83,223	4.08%

(1) $6.7 million of CMBS maturing in this category are collateralized by floating-rate loans and, as permitted under the CMBS terms, are expected to extend their maturities, because, beyond their contractual extensions which expired or will expire this year, the servicer may allow further extensions of the underlying floating rate loans. The Company expects that the remaining $53.5 million of CMBS will either be extended or be paid in full.

(2) All of the $3.3 million of CMBS maturing in this category are collateralized by floating-rate loans and, as permitted under the CMBS terms, are expected to extend their respective maturity dates until at least November 2011 as the debtors in the floating-rate structures have a contractual right to extend with options ranging from two one-year options to three one-year options. Beyond the contractual extensions, the servicer may allow further extensions of the underlying floating rate loans.

The contractual maturities of the CMBS investment securities available-for-sale range from August 2012 to July 2022. The contractual maturities of the ABS investment securities available-for-sale range from March 2012 to August 2022.

The following table shows the fair value and gross unrealized losses, aggregated by investment category and length of time, that those individual investment securities available-for-sale that have been in a continuous unrealized loss position (in thousands):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2011:						
CMBS	$ 99,974	$ (17,096)	$ 8,281	$ (12,788)	$ 108,255	$ (29,884)

ABS	13,583	(935)	4,473	(2,592)	18,056	(3,527)
Total temporarily impaired securities	$ 113,557	$ (18,031)	$ 12,754	$ (15,380)	$ 126,311	$ (33,411)
December 31, 2010:						
CMBS	$ 10,134	$ (4,383)	$ 8,302	$ (22,195)	$ 18,436	$ (26,578)
ABS	–	–	–	–	–	–
Total temporarily impaired securities	$ 10,134	$ (4,383)	$ 8,302	$ (22,195)	$ 18,436	$ (26,578)

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 6 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (Continued)

The Company held eight and seven CMBS investment securities available-for-sale that have been in a loss position for more than 12 months as of December 31, 2011 and 2010, respectively. The Company held seven ABS investment securities available-for-sale that have been in a loss position for more than 12 months as of December 31, 2011. The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

The determination of other-than-temporary impairment is a subjective process, and different judgments and assumptions could affect the timing of loss realization. The Company reviews its portfolios and makes other-than-temporary impairment determinations at least quarterly. The Company considers the following factors when determining if there is an other-than-temporary impairment on a security:

the length of time the market value has been less than amortized cost;

the severity of the impairment;

the expected loss of the security as generated by a third-party valuation model;

original and current credit ratings from the rating agencies;

underlying credit fundamentals of the collateral backing the securities;

whether, based upon the Company's intent, it is more likely than not that the Company will sell the security before the recovery of the amortized cost basis;

third-party support for default, for recovery, prepayment speed and reinvestment price assumptions.

At December 31, 2011 and 2010, the Company held $132.8 million and $64.0 million, respectively, (net of net unrealized losses of $28.7 million and $19.3 million, respectively), of CMBS recorded at fair value. To determine fair value, the Company uses two methods, either a dealer quote or an internal valuation model, depending upon the current level of market activity. As of December 31, 2011 and 2010, $123.9 million and $53.7 million, respectively, of investment securities available-for-sale were valued using dealer quotes and $8.9 million and $10.3 million, respectively, were valued using a weighted average of three measures (see Note 2).

At December 31, 2011, the Company held $25.2 million, (net of net unrealized losses of $3.3 million), of ABS recorded at fair value (see Note 2). These securities were classified as securities held-to-maturity as of December 31, 2010. To determine their fair value, the Company uses dealer quotes.

During the year ended December 31, 2011, the Company recognized $4.6 million of other-than-temporary impairment on one fixed rate position that supported the Company's CMBS investments, bringing the fair value of this position to $200,000. During the year ended December 31, 2010, the Company recognized $26.6 million of other-than-temporary impairment on five fixed rate positions that supported the Company's CMBS investments, bringing the fair value of these positions to $215,000. The assumed default of the underlying collateral positions in the Company's cash flow model yielded a value of less than full recovery of the Company's cost basis. The net impairment losses were recognized in earnings in the consolidated statements of operations. All of the Company's other-than-temporary impairment losses are related to credit losses.

During the year ended December 31, 2011, the Company recognized a gain of $3.5 million related to the sale of one CMBS private placement position. During the year ended December 31, 2010, the Company recognized a gain of $5.0 million related to the sale of five CMBS private placement positions.

During the years ended December 31, 2011 and 2010, the Company sold $8.1 million and $3.5 million of ABS securities. In November 2011, the ABS investment securities held-to-maturity portfolio was reclassified to investment securities available-for-sale.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on CMBS in the Company's investment portfolio. At December 31, 2011, the aggregate discount exceeded the aggregate premium on the Company's CMBS by approximately $13.2 million. At December 31, 2010, the aggregate discount exceeded the aggregate premium on the Company's CMBS by approximately $20.9 million. At December 31, 2011 and 2010 the discount on the Company's ABS portfolio was $3.8 million and $2.8 million, respectively. There were no premiums on the Company's ABS investment portfolio.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 7 – INVESTMENT SECURITIES HELD-TO-MATURITY

In November 2011, the Company's investment securities held-to-maturity were reclassified to investment securities available-for-sale since the Company no longer intended to hold these positions until maturity. These investments are now held at fair value with any unrealized gain or loss is reported in the stockholder's equity section of the balance sheet. Comparable current year data for the Company's ABS can be found in Note 6.

The following table summarizes the Company's investment securities held-to-maturity which are carried at amortized cost (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2010:				
ABS	$29,036	$752	$(3,847)	$25,941
Total	$29,036	$752	$(3,847)	$25,941

The following table summarizes the estimated maturities of the Company's securities held-to-maturity according to their contractual lives (in thousands):

Contractual Life	Amortized Cost	Fair Value	Weighted Average Coupon
December 31, 2010:			
Less than one year	$–	$–	– %
Greater than one year and less than five years	5,000	4,830	6.14%
Greater than five years and less than ten years	15,891	15,073	1.97%
Greater than ten years	8,145	6,038	4.11%
Total	$29,036	$25,941	

The following table shows the fair value and gross unrealized losses, aggregated by investment category and length of time, of those individual investment securities that have been in a continuous unrealized loss position (in thousands):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2010:						
ABS	$ 1,038	$ (1)	$ 11,923	$ (3,846)	$ 12,961	$ (3,847)
Total temporarily impaired securities	$ 1,038	$ (1)	$ 11,923	$ (3,846)	$ 12,961	$ (3,847)

The Company held 12 investment securities held-to-maturity that had been in a loss position for more than 12 months as of December 31, 2010. The unrealized losses in the above table were considered to be temporary impairments due to market factors and were not reflective of credit deterioration.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 8 – INVESTMENTS IN REAL ESTATE

The table below summarizes the Company's investments in real estate (in thousands):

	As of December 31, 2011	
	Book Value	Number of Properties
Multi-family property	$38,577	2
Office property	10,149	1
Subtotal	48,726	
Less: Accumulated depreciation	(699)	
Investments in real estate	$48,027	

The Company had no investments in real estate as of December 31, 2010.

Acquisitions

During the year ended December 31, 2011, the Company converted two loans it had originated to investments in real estate and acquired one real estate asset, summarized as follows:

On June 14, 2011, the Company converted a loan that it had originated to equity with a fair value of $22.4 million at acquisition. The loan was collateralized by a 400 unit multi-family property in Memphis, Tennessee. The property was 93.8% occupied at acquisition.

On June 24, 2011, the Company converted a loan that it had originated to equity with a fair value of $10.7 million at acquisition. The loan was collateralized by an office building in Pacific Palisades, California. The property was 60% occupied at acquisition. In conjunction with the purchase of this property, we entered into a mortgage in the amount of $13.6 million.

On August 1, 2011, the Company, through its subsidiary RCC Real Estate, purchased Whispertree Apartments, a 504 multi-family property located in Houston, Texas, for $18.1 million, the fair value. The property was 95% occupied at acquisition.

A summary of the aggregate estimated fair value of the assets and liabilities acquired on the respective dates of acquisition are presented below (in thousands):

Description	Estimated Fair Value
Assets acquired:	
Investments in real estate	$ 48,683
Cash and cash equivalents	177
Restricted cash	2,360
Intangible assets	2,490
Other assets	391

Total assets acquired		54,101
Liabilities assumed:		
Accounts payable and other liabilities		673
Total liabilities assumed		673
Estimated fair value of net assets acquired	$	53,428

The Company accounted for the acquisition of Whispertree Apartments as a business combination in accordance with FASB ASC Topic 805. In the fourth quarter of 2011, the Company obtained the final appraisal of the property. Based on the final appraisal, the Company adjusted the value of the land and the value of the building by $3.9 million, respectively, as of the acquisition date. Accordingly, these adjustments were recognized and are reflected in the consolidated financial statements as of December 31, 2011.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 8 – INVESTMENTS IN REAL ESTATE – (Continued)

Acquisitions – (Continued)

The following unaudited pro forma information, after including the acquisition of real properties, is presented below as if the acquisitions occurred on January 1, 2010. The pro forma results are not necessarily indicative of the results which actually would have occurred if the acquisition had occurred on the first day of the periods presented, nor is it indicative of the Company's future results (in thousands):

	Years Ended December 31,	
	2011	2010
Description:		
Total revenue, as reported	$ 94,163	$ 67,445
Pro forma revenue	$ 99,012	$ 74,830
Net income, reported	$ 52,818	$ 34,837
Pro forma net income	$ 51,548	$ 33,640
Earnings per share – basic, reported	$ 0.54	$ 0.41
Earnings per share per – diluted, reported	$ 0.53	$ 0.41
Pro forma earnings per share - basic	$ 0.73	$ 0.71
Pro forma earnings per share - diluted	$ 0.73	$ 0.70

These amounts have been calculated after adjusting the results of the acquired properties to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to the Company's investments in real estate had been applied from January 1, 2010.

NOTE 9 – LOANS HELD FOR INVESTMENT

The following is a summary of the Company's loans (in thousands):

Loan Description	Principal	Unamortized (Discount) Premium (1)	Carrying Value (2)
December 31, 2011:			
Bank loans (3)	$1,205,826	$ (32,073)	$1,173,753
Commercial real estate loans:			
Whole loans	545,828	(1,155)	544,673
B notes	16,579	(144)	16,435
Mezzanine loans (3)	67,842	32	67,874
Total commercial real estate loans	630,249	(1,267)	628,982
Subtotal loans before allowances	1,836,075	(33,340)	1,802,735
Allowance for loan loss	(27,518)	–	(27,518)
Total	$1,808,557	$ (33,340)	$1,775,217

December 31, 2010:			
Bank loans (3)	$887,667	$ (27,204)	$860,463
Commercial real estate loans:			
Whole loans	441,706	(334)	441,372
B notes	57,613	(162)	57,451
Mezzanine loans (3)	146,668	143	146,811
Total commercial real estate loans	645,987	(353)	645,634
Subtotal loans before allowances	1,533,654	(27,557)	1,506,097
Allowance for loan loss	(34,233)	–	(34,233)
Total	$1,499,421	$ (27,557)	$1,471,864

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 9 – LOANS HELD FOR INVESTMENT – (Continued)

---

(1) Amounts include deferred amendment fees of $286,000 and $636,000 being amortized over the life of the bank loans and $123,000 and $124,000 being amortized over the life of the commercial real estate loans as of December 31, 2011 and 2010, respectively.
(2) Substantially all loans are pledged as collateral under various borrowings at December 31, 2011 and 2010, respectively.
(3) Amounts include $3.2 million of bank loans as of December 31, 2011 and $4.0 million of bank loans and $24.6 million of mezzanine loans held for sale as of December 31, 2010.

At December 31, 2011 and 2010, approximately 41.9% and 38.0%, respectively, of the Company's commercial real estate loan portfolio was concentrated in commercial real estate loans located in California; approximately 9.1% and 8.8%, respectively, in Arizona; 1.6% and 10.4%, respectively, was concentrated in New York; and approximately 8.0% in Florida. At December 31, 2011 and 2010, approximately 13.9% and 10.7%, respectively, of the Company's bank loan portfolio was concentrated in the collective industry grouping of healthcare, education and childcare.

At December 31, 2011, the Company's bank loan portfolio consisted of $1.2 billion (net of allowance of $3.3 million) of floating rate loans, which bear interest ranging between the London Interbank Offered Rate ("LIBOR") plus 1.1% and LIBOR plus 10.6% with maturity dates ranging from March 2012 to September 2019. At December 31, 2010, the Company's bank loan portfolio consisted of $857.9 million (net of allowance of $2.6 million) of floating rate loans, which bear interest ranging between LIBOR plus 0.5% and LIBOR plus 9.5% with maturity dates ranging from March 2011 to December 2017.

The following is a summary of the weighted average life of the Company's bank loans, at amortized cost (in thousands):

	Years Ended December 31,	
	2011	2010
Less than one year	$ 1,968	$ 4,245
Greater than one year and less than five years	684,376	643,699
Five years or greater	487,409	212,519
	$ 1,173,753	$ 860,463

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 9 – LOANS HELD FOR INVESTMENT – (Continued)

The following is a summary of the Company's commercial real estate loans (in thousands):

Description	Quantity	Amortized Cost	Contracted Interest Rates	Maturity Dates (4)
December 31, 2011:				
Whole loans, floating rate (1) (5)	32	$ 537,708	LIBOR plus 2.50% to LIBOR plus 5.75%	April 2012 to February 2019
Whole loans, fixed rate	1	6,965	10.00%	June 2012
B notes, fixed rate	1	16,435	8.68%	April 2016
Mezzanine loans, floating rate	3	53,908	LIBOR plus 2.50% to LIBOR plus 7.45%	May 2012 to December 2012
Mezzanine loans, fixed rate	2	13,966	8.99% to 11.00%	January 2016 to September 2016
Total (3)	39	$ 628,982		
December 31, 2010:				
Whole loans, floating rate (1)	25	$ 441,372	LIBOR plus 1.50% to LIBOR plus 5.75%	May 2011 to January 2018
B notes, floating rate	2	26,485	LIBOR plus 2.50% to LIBOR plus 3.01%	July 2011 to October 2011
B notes, fixed rate	2	30,966	7.00% to 8.68%	July 2011 to April 2016
Mezzanine loans, floating rate	6	93,266	LIBOR plus 2.15% to LIBOR plus 3.00%	May 2011 to January 2013
Mezzanine loans, fixed rate (2)	5	53,545	8.14% to 11.00%	January 2016 to September 2016
Total (3)	40	$ 645,634		

(1) Whole loans had $5.2 million and $5.0 million in unfunded loan commitments as of December 31, 2011 and 2010, respectively. These commitments are funded as the loans require additional funding and the related borrowers have satisfied the requirements to obtain this additional funding.
(2) Fixed rate mezzanine loan dates exclude a loan that matured in May 2010, was in default and had been on non-accrual status since its default. The loan was written off in March 2011.
(3) The total does not include an allowance for loan losses of $24.2 million and $31.6 million recorded as of December 31, 2011 and 2010, respectively.
(4) Maturity dates do not include possible extension options that may be available to the borrowers.
(5) Floating rate whole loans includes a $2.0 million mezzanine portion of a whole loan that has a fixed rate of 15.0% and a preferred equity loan for $302,000 that has a fixed rate of 10% as of December 31, 2011.

During the year ended December 31, 2011, the Company converted a loan collateralized by a multi-family apartment property to an equity position. After determining the fair value of the apartment building, the Company determined that there was no gain or loss on conversion of the property. The Company classified this property as investments in real estate with a carrying value of $21.1 million at December 31, 2011.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 9 – LOANS HELD FOR INVESTMENT – (Continued)

During the year ended December 31, 2011, the Company converted a loan collateralized by an office building to an equity position. After a review of the fair value of the office building, the Company determined a provision of $1.7 million was needed. The Company classified this property as investments in real estate with a carrying value of $10.0 million at December 31, 2011.

The following is a summary of the weighted average life of the Company's commercial real estate loans, at amortized cost (in thousands):

Description	2012	2013	2014 and Thereafter	Total
December 31, 2011:				
B notes	$ –	$ –	$ 16,435	$ 16,435
Mezzanine loans	38,072	5,319	24,483	67,874
Whole loans	97,327	3,250	444,096	544,673
Total (1)	$ 135,399	$ 8,569	$ 485,014	$ 628,982

(1) Weighted average life of commercial real estate loans assumes full exercise of extension options available to borrowers.

The following is a summary of the allocation of the allowance for loan loss with respect to the Company's commercial real estate and bank loans (in thousands, except percentages) by asset class:

Description	Allowance for Loan Loss	Percentage of Total Allowance
December 31, 2011:		
B notes	$ 253	0.92%
Mezzanine loans	1,437	5.23%
Whole loans	22,531	81.87%
Bank loans	3,297	11.98%
Total	$ 27,518	
December 31, 2010:		
B notes	$ 899	2.6%
Mezzanine loans	8,553	25.0%
Whole loans	22,165	64.8%
Bank loans	2,616	7.6%
Total	$ 34,233	

As of December 31, 2011, the Company had recorded an allowance for loan losses of $27.5 million consisting of a $3.3 million allowance on the Company's bank loan portfolio and a $24.2 million allowance on the Company's commercial real estate portfolio as a result of the impairment of one bank loan and four commercial real estate loans as well as the maintenance of a general reserve with respect to these portfolios.

As of December 31, 2010, the Company had recorded an allowance for loan losses of $34.2 million consisting of a $2.6 million allowance on the Company’s bank loan portfolio and a $31.6 million allowance on the Company’s commercial real estate portfolio as a result of the impairment of one bank loan and eight commercial real estate loans as well as the maintenance of a general reserve with respect to these portfolios.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 10 – INVESTMENTS IN UNCONSOLIDATED ENTITIES

On November 16, 2011, the Company together with LEAF Financial and LEAF Commercial Capital, Inc. ("LCC"), a commercial finance company specializing in equipment leasing formed in January 2011, subsidiaries of Resource America, entered into a stock purchase agreement and related agreements (collectively the "SPA") with Eos Partners, L.P., a private investment firm, and its affiliates ("Eos"). In exchange for its prior interest in LCC, the Company received 31,341 shares of Series A Preferred Stock, 4,872 shares of newly issued 8% Series B Redeemable Preferred Stock (the "Series B Preferred Stock") and 2,364 shares of newly issued Series D Redeemable Preferred Stock (the "Series D Preferred Stock"), collectively representing, on a fully-diluted basis assuming conversion, a 26.7% interest in LCC. Several approaches were used, including discounted expected cash flows, market approach and comparable sales transactions to estimate the fair value of its investment in LCC as a result of the transaction. These approaches required assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates, which were based on the current economic environment and credit market conditions. The Company's investment in LCC was valued at $36.3 million based on a third-party valuation. Accordingly, the Company recorded a loss of $2.2 million in conjunction with the transaction. Subsequent to this transaction, the Company's resulting interest will be accounted for under the equity method.

The Company has a 100% interest valued at $1.5 million in the common shares (three percent of the total equity) in two trusts, Resource Capital Trust I ("RCT I") and RCC Trust II ("RCT II"). The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts. The Company does not have the power to direct the activities of either trust, nor does it have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these trusts. Therefore, the Company is not deemed to be the primary beneficiary of either trust and they are not consolidated into the Company's consolidated financial statements. The Company records its investments in RCT I and RCT II's common shares of $774,000 each as investments in unconsolidated trusts using the cost method and records dividend income upon declaration by RCT I and RCT II. For the years ended December 31, 2011, and 2010, the Company recognized $3.0 million and $3.6 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $277,000 and $302,000, respectively, of amortization of deferred debt issuance costs. The Company will continuously reassess as to whether it should be deemed to be the primary beneficiary of the trusts.

NOTE 11 –LEASE RECEIVABLES

In May 2010, the Company closed a $120.0 million securitization. The securitization, LEAF Equipment Leasing Income Fund III, L.P. ("LEAF Funding 3"), issued equipment-backed securitized notes at a weighted average discounted price of 93.6% with a weighted average interest rate of 7.85% and a weighted average life of 1.89 years. At closing, $14.4 million of the proceeds were placed into a restricted account and were used as new leases were originated by LEAF Funding 3 together with an additional equity contribution by the Company of approximately $1.2 million. The notes can be prepaid upon reaching 15% of the original issuance amount through an auction call provision or upon reaching 10% through a standard clean-up. The transaction was structured and purchased by a third-party, who then sold the securitization to the Company. The Company had $21.0 million of equity invested in LEAF Funding 3 as of December 31, 2010. The Company evaluated this transaction and determined that the securitization was a VIE and that the Company was the primary beneficiary. Therefore, the securitization had been consolidated onto the Company's consolidated financial statements. On January 4, 2011, the Company made an investment, in conjunction with a debt financing commitment from Guggenheim Securities, in LCC. LEAF contributed its leasing platform and directly-held leases and loans to LCC while the Company and Guggenheim

Securities committed to investing up to $44.0 million of capital (which included an option in LCC to require the Company to invest an additional $10 million at a later date) in the form of preferred stock and subordinated debt, respectively, into LCC. A portion of the Company's investment consisted of the contribution of leases and loans and equity in these investments it had acquired from LEAF. In return, the Company received 2,626 shares of LEAF Commercial Series A preferred stock and warrants to purchase 4,800 shares of LCC common stock for an exercise price of $0.01 per share (representing 48% of LCC's common stock on a fully-diluted basis). Subsequently, on November 16, 2011, in connection with an investment made by Eos, the Company's investment was converted into series A, B and D preferred stock (see Note 10).

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 11 –LEASE RECEIVABLES – (Continued)

The Company did not have any direct financing leases as of December 31, 2011. As of December 31, 2010, the leases in the Company's portfolio had weighted average initial lease and loan terms of 53 months. The interest rates on lease receivables ranged from 8% to 14% as of December 31, 2010.

Leases not meeting any of the criteria to be classified as direct financing leases were deemed to be operating leases. Under the accounting for operating leases, the cost of the leased equipment, including acquisition fees associated with lease placements, was recorded as an asset and depreciated on a straight-line basis over the equipment's estimated useful life, generally up to seven years. Rental income consisted primarily of monthly periodic rental payments due under the terms of the leases. The Company recognized rental income on a straight-line basis and recorded it as interest income in the consolidated statement of operations. The Company recognized $5.0 million in rental income during the year ended December 31, 2010.

NOTE 12 –FINANCING RECEIVABLES

The disclosures in this footnote are required pursuant to guidance issued by the FASB that requires companies to provide more information about the credit quality of their financing receivables including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators.

The following tables show the allowance for loan and lease receivable losses and recorded investments in loans and lease receivables for the years indicated (in thousands):

	Commercial Real Estate Loans	Bank Loans	Lease Receivables	Loans Receivable-Related Party	Total
December 31, 2011:					
Allowance for losses at January 1, 2011	$ 31,617	$ 2,616	$ 70	$ –	$ 34,303
Provision for loan loss	6,478	7,418	–	–	13,896
Loans charged-off	(13,874)	(6,737)	(70)	–	(20,681)
Recoveries	–	–	–	–	–
Allowance for losses at December 31, 2011	$ 24,221	$ 3,297	$ –	$ –	$ 27,518
Ending balance:					
Individually evaluated for impairment	$ 17,065	$ 1,593	$ –	$ –	$ 18,658
Collectively evaluated for impairment	$ 7,156	$ 1,704	$ –	$ –	$ 8,860
Loans acquired with deteriorated credit quality	$ –	$ –	$ –	$ –	$ –
Loans:					
Ending balance:					

Individually evaluated for impairment	$ 113,038	$ 2,693	$ –	$ –	$ 115,731
Collectively evaluated for impairment	$ 515,944	$ 1,171,060	$ –	$ 9,497	$ 1,696,501
Loans acquired with deteriorated credit quality	$ –	$ –	$ –	$ –	$ –

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 12 –FINANCING RECEIVABLES – (Continued)

	Commercial Real Estate Loans	Bank Loans	Lease Receivables	Loans Receivable-Related Party	Total
December 31, 2010:					
Allowance for losses at January 1, 2010	$29,297	$17,825	$1,140	$ –	$48,262
Provision for loan loss	44,357	(1,348)	312	–	43,321
Loans charged-off	(42,037)	(13,861)	(1,432)	–	(57,330)
Recoveries	–	–	50	–	50
Allowance for losses at December 31, 2010	$31,617	$2,616	$70	$ –	$34,303
Ending balance:					
Individually evaluated for impairment	$20,844	$112	$–	$ –	$20,956
Collectively evaluated for impairment	$10,773	$2,504	$70	$ –	$13,347
Loans acquired with deteriorated credit quality	$–	$–	$–	$ –	$–
Loans:					
Ending balance:					
Individually evaluated for impairment	$153,620	$362	$10,024	$ –	$164,006
Collectively evaluated for impairment	$492,014	$860,101	$99,658	$ 9,927	$1,461,700
Loans acquired with deteriorated credit quality	$–	$–	$–	$ –	$–

Credit quality indicators

Bank Loans

The Company uses a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing the Company's highest rating and 5 representing its lowest rating. The Company also designates loans that are sold after the period end at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. The Company considers such things as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies, and industry dynamics in grading its bank loans.

Credit risk profiles of bank loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of December 31, 2011:							
Bank loans	$1,076,298	$19,739	$60,329	$11,540	$2,693	$3,154	$1,173,753
As of December 31, 2010:							
Bank loans	$759,161	$43,858	$45,115	$7,940	$362	$4,027	$860,463

All of the Company’s bank loans are performing with the exception of one loan which defaulted on December 30, 2011 with a carrying amount of $2.7 million as of December 31, 2011. As of December 31, 2010, all of the Company’s bank loans were performing with the exception of one loan with a carrying amount of $362,000, which had been in default since September 2010 and which was sold in November 2011.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 12 –FINANCING RECEIVABLES – (Continued)

Commercial Real Estate Loans

The Company uses a risk grading matrix to assign grades to commercial real estate loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-4 with 1 representing the Company's highest rating and 4 representing its lowest rating. The Company designates loans that are sold after the period end at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. In addition to the underlying performance of the loan collateral, the Company considers such things as the strength of underlying sponsorship, payment history, collectability of interest, structural credit enhancements, market trends and loan terms in grading its commercial real estate loans.

Credit risk profiles of commercial real estate loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Held for Sale	Total
As of December 31, 2011:						
Whole loans	$329,085	$87,598	$90,225	$37,765	$–	$544,673
B notes	16,435	–	–	–	–	16,435
Mezzanine loans	23,347	–	44,527	–	–	67,874
	$368,867	$87,598	$134,752	$37,765	$–	$628,982
As of December 31, 2010:						
Whole loans	$123,350	$16,143	$264,660	$37,219	$–	$441,372
B notes	16,538	–	40,913	–	–	57,451
Mezzanine loans	32,635	–	84,610	5,000	24,566	146,811
	$172,523	$16,143	$390,183	$42,219	$24,566	$645,634

All of the Company's commercial real estate loans are performing as of December 31, 2011. As of December 31, 2010, all our commercial real estate loans were performing except for one loan with a par amount of $5.0 million which has been in default since May 2010 and was charged-off in the quarter ended March 31, 2011.

Lease receivables

The Company does not have any lease receivables as of December 31, 2011, although it did have lease receivables as of December 31, 2010. If the Company holds lease receivables, it evaluates the adequacy of the allowance for credit losses in lease receivables based upon, among other factors, management's historical experience with its commercial finance portfolios, an analysis of contractual delinquencies, economic conditions and trends, industry statistics and equipment finance portfolio characteristics, as adjusted for expected recoveries. In evaluating historic performance of leases and loans, a migration analysis is performed that estimates the likelihood that an account progresses through delinquency stages to ultimate write-off. The Company fully reserves, net of recoveries, all leases and loans after they are 180 days past due.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 12 –FINANCING RECEIVABLES – (Continued)

Loan and Lease Receivable Portfolios Aging Analysis

The following table shows the loan and lease receivable portfolio aging analysis for the years indicated at cost basis (in thousands):

	30 – 59 Days	60 – 89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
December 31, 2011:							
Whole loans	$ –	$ –	$ –	$ –	$ 544,673	$ 544,673	$ –
B notes	–	–	–	–	16,435	16,435	–
Mezzanine loans	–	–	–	–	67,874	67,874	–
Bank loans	–	–	–	–	1,173,753	1,173,753	–
Lease receivables	–	–	–	–	–	–	–
Loans receivable-related party	–	–	–	–	9,497	9,497	–
Total loans	$ –	$ –	$ –	$ –	$ 1,812,232	$ 1,812,232	$ –
December 31, 2010:							
Whole loans	$ –	$ –	$ –	$ –	$ 441,372	$ 441,372	$ –
B notes	–	–	–	–	57,451	57,451	–
Mezzanine loans	–	–	5,000	5,000	141,811	146,811	–
Bank loans	–	–	–	–	860,463	860,463	–
Lease receivables	630	237	829	1,696	107,986	109,682	–
Loans receivable-related party	–	–	–	–	9,927	9,927	–
Total loans	$ 630	$ 237	$ 5,829	$ 6,696	$ 1,619,010	$ 1,625,706	$ –

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2011

NOTE 12 –FINANCING RECEIVABLES – (Continued)

Impaired Loans and Lease Receivables

The following tables show impaired loans and lease receivables for the years indicated (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2011:					
Loans and lease receivables without a specific valuation allowance:					
Whole loans	$75,273	$75,273	$–	$75,263	$2,682
B notes	$–	$–	$–		