Resource Capital Corp.
Form 10-K
March 17, 2008

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, 2007

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, 10th Floor New York, NY	10019
(Address of principal executive offices)	(Zip Code)

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

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 x No

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 x No

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. x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

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, 2007) was approximately $258,130,718.

The number of outstanding shares of the registrant's common stock on March 10, 2008 was 25,264,793 shares.

DOCUMENTS INCORPORATED BY REFERENCE
[None]

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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 of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Forward-looking statements we make in this 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” and “Business;”
- 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 specialty finance company that focuses primarily on commercial real estate and commercial finance. We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of commercial real estate debt and other real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments.

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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 generate and administer investment opportunities for its own account and for outside investors in the commercial finance, real estate, and financial fund management sectors. As of December 31, 2007, Resource America managed approximately $17.9 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

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
Commercial finance assets	· Senior secured corporate loans, which we refer to as bank loans · Other asset-backed securities, which we refer to as other ABS, backed principally by small business and bank loans and, to a lesser extent, by consumer receivables · Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes · Trust preferred securities of financial institutions · Debt tranches of collateralized debt obligations, which we refer to as CDOs · Private equity investments, principally issued by financial institutions
Residential real estate-related assets	· Residential mortgage-backed securities, which we refer to as ABS-RMBS

Beginning in the second half of 2007, there have been unprecedented disruptions in the credit markets, abrupt and significant devaluations of assets directly or indirectly linked to the U.S. real estate finance markets, and the attendant removal of liquidity, both long and short term, from the capital markets. These conditions have had, and we expect will continue to have, an adverse effect on us and companies we finance. During the second half of 2007, we recorded material asset impairments of $26.3 million on our ABS-RMBS portfolio due primarily to credit defaults.

The events occurring in the credit markets have impacted our financing strategies. The market for securities issued by securitizations collateralized by assets similar to those in our investment portfolio has contracted severely. While we were able to sponsor two new securitizations in 2007, we expect our ability to sponsor new securitizations will be limited for the foreseeable future. Short-term financing through warehouse lines of credit and repurchase agreements has become less available and reliable as increasing volatility in the valuation of assets similar to those we originate has increased the risk of margin calls. These events have impacted (and we expect will continue to impact) our ability to finance our business on a long-term, match-funded basis and may impede our ability to originate loans and securities.

Beginning in the second half of 2007, we have focused on managing our exposure to liquidity risks primarily by reducing our exposure to possible margin calls under repurchase agreements and seeking to conserve our liquidity. We have continued to manage our liquidity and originate new assets primarily through capital recycling as payoffs occur and through existing capacities within our completed securitizations. While we recorded asset impairments as a result of the developments in the capital markets resulting in our reduced GAAP net income during 2007, we declared common dividends of $1.62 per share on estimated REIT taxable income of $1.70 per share.

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We calculate our distributions to our shareholders based on our estimate of our REIT taxable income, which may vary from our net income calculated in accordance with U.S. generally accepted accounting principles, or GAAP. We expect that our REIT taxable income will be comprised primarily of our net investment income and our fee income. We expect that our REIT taxable income will be greater than our GAAP net income primarily because of asset impairments, provisions for loan and lease losses until realized for tax purposes, net book to tax adjustments for our taxable foreign REIT subsidiaries and fee income received by our taxable REIT subsidiaries, or TRSs, that is dividended to us is included in our REIT taxable income but deferred or eliminated for GAAP. For further discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Business Strategy

The core components and values of our business strategy are described below.

Disciplined credit underwriting and active risk management. The core of our investment process is credit analysis and active risk management. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes, and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stresses. After making an investment, the Manager and Resource America engage in active monitoring of our investments for early detection of troubled and deteriorating securities. If a default occurs, we will use our senior management team's asset management skills to mitigate the severity of any losses, and we will seek to optimize the recovery from assets if we foreclose upon them.

Investment in higher-yielding assets. Our portfolio is, and we expect will continue to be substantially comprised of assets such as 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 that generally have higher-yields than more senior or more highly-rated obligations and to a lesser extent, direct financing leases and notes and when appropriate, ABS-RMBS. In line with this strategy, our equity at December 31, 2007 was invested 74.9% in commercial real estate loans, 24.1% in commercial bank loans and 1% in direct financing lease and notes.

Diversification of investments. We invest in a diversified portfolio of real estate debt and other real estate-related assets, and commercial finance assets and seek to continually allocate our capital to the most attractive sectors. Our objective is to enhance the returns we will be able to achieve, while reducing the overall risk of our portfolio through the autonomous nature of these various asset classes. The percentage of assets that we may invest in certain of our targeted asset classes is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from Investment Company Act regulation.

Use of leverage. Subject to market conditions and credit availability, we seek to use leverage to increase the potential returns to our stockholders and to achieve leverage consistent with our analysis of the risk profile of the investments we finance and the borrowing sources available to us. We generate our income primarily from the net spread between the interest income we earn on our investment portfolio and the cost of our borrowings and hedging activities. Leverage can enhance returns but also magnifies losses.

Active management of interest rate risk and liquidity risk. Historically, we have sought to finance a substantial portion of our portfolio investments on a long-term basis through borrowing strategies that seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. We believe that these strategies have allowed us to mitigate our interest rate risk and liquidity risk, resulting in more stable and predictable cash flows. Depending upon market conditions and credit availability, we will seek to continue these strategies. Historically, we have used CDOs structured for us by the Manager to provide long-term match funding for our investments, and will seek to continue to do so if market conditions permit. We typically retain the equity portion of the CDO and may retain one or more series of the subordinated obligations issued by the CDO. We also use derivative instruments such as interest rate swaps and interest rate caps to hedge the borrowings we use to finance our assets on a short-term basis.

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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 use 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 will have 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.

We have historically used borrowing and securitization strategies, substantially through CDOs, to accomplish our long-term match funding, financing strategy and, depending upon market conditions, expect to seek to do so in the future. However, the developments in the credit markets, particularly during the second half of 2007, have significantly limited our ability to execute our long term financing strategy. In the foreseeable future, we will seek to finance our investments through investing restricted cash and reinvesting loan repayments received under our current securitized financings, joint venture opportunities and to a lesser extent, bank lines of credit and other methods that preserve our capital.

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

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Our Investment Strategy

The following table describes certain characteristics of our commercial real estate loans, bank loans, CMBS, other ABS and equipment leases and notes as of December 31, 2007 (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	$ 223,162	$ 221,555	11.8%	7.80%
B notes	89,577	89,353	4.8%	7.67%
Whole loans	528,718	527,396	28.1%	7.99%
Bank loans	931,101	874,736	46.7%	7.24%
	1,772,558	1,713,040	91.4%	
Investments in Available-for-Sale Securities				
CMBS	82,373	64,564	3.4%	6.03%
Other ABS	5,665	900	0.1%	6.33%
	88,038	65,464	3.5%	
Investments in direct financing leases and notes	95,323	95,030	5.1%	9.43%
Total portfolio/weighted average	$ 1,955,919	$ 1,873,534	100.0%	7.58%

(1) The fair value of our investments represents our management's estimate of the price that a willing buyer would pay a willing seller 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.

Commercial Real Estate-Related Investments

Whole loans. We originate first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enable us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan, consisting of an A note (described below), B notes (described below), mezzanine loans or other participations, which we may hold or sell to third parties. We do not expect to obtain ratings on these investments unless we are able to aggregate and finance them through a securitization transaction. We expect our whole loan investments to have loan to value, or LTV, ratios of up to 85%. We expect to hold our whole loan investments to their maturity.

Senior interests in whole loans (A notes). We invest in senior interests in whole loans, referred to as A notes, either directly originated or purchased from third parties. A notes are loans that, generally, consist of senior participations in, or a senior tranche within a first mortgage. We do not expect to obtain ratings on these investments unless we are able to aggregate and finance them through a securitization transaction. We expect our A note investments to have LTV ratios of up to 70%. We expect to hold our A note investments to their maturity.

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 and 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. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not expect to obtain ratings on these investments unless we are able to aggregate and finance them through a securitization transaction. We expect our B note investments to have LTV ratios of between 55% and 80%. Typical B note investments will have terms of three years to five years, and are generally structured with an original term of up to three years, with one year extensions that bring the loan to a maximum term of five years. We expect to hold our B note investments to their maturity.

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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. We expect our mezzanine investments to have LTV ratios between 65% and 90%. We expect the stated maturity of our mezzanine financings to range from three to five years. Mezzanine loans may have maturities that match the maturity of the related mortgage loan but may have shorter or longer terms. We expect to hold these investments to maturity.

The following charts describe the loan type, property type and the geographic breakdown of our commercial real estate loan as of December 31, 2007 (based on par value):

Loan Type

Property Type

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Geographic by State

As these charts demonstrate, our portfolio contains a diversified mix of property types with 90% of the portfolio focus on four types, Multifamily 30%, Office 24%, Hotel 24% and Retail 16%.

Our geographic mix includes approximately 41% in California, which we split into Southern (23%) and Northern (19%) regions. Within the Southern region, we have 86% of our portfolio in whole loans with 83% on four property types, Hotel 31%, Office 24%, Multifamily 17%, and Retail 11%. Within the Northern region, we have 88% of our portfolio in whole loans with 88% on two property types, Multifamily 72% and Retail 16%. 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. We expect that the majority of our CMBS investments will be rated by at least one nationally recognized rating agency.

The yields on CMBS depend on the timely payment of interest and principal due on the underlying mortgage loans and defaults by the borrowers on such loans may ultimately result in deficiencies and defaults on the CMBS. In the event of a default, the trustee for the benefit of the holders of CMBS has recourse only to the underlying pool of mortgage loans and, if a loan is in default, to the mortgaged property securing such mortgage loan. After the trustee has exercised all of the rights of a lender under a defaulted mortgage loan and the related mortgaged property has been liquidated, no further remedy will be available. However, holders of relatively senior classes of CMBS will be protected to a certain degree by the structural features of the securitization transaction within which such CMBS were issued, such as the subordination of the relatively more junior classes of the CMBS.

Residential Real Estate-Related Investments

Historically, we had invested in agency RMBS and non-agency ABS-RMBS portfolios. We sold our agency RMBS portfolio in September 2006. We sold 10% of the equity invested in an ABS-RMBS portfolio in November 2007 and wrote down the investment materially in September 2007. As a result of the sale, we deconsolidated the portfolio in the quarter ended December 31, 2007 at which time our remaining investment was $257,000. We do not anticipate investing in agency RMBS or non-agency RMBS for the foreseeable future.

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:

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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. We also have invested, to a lesser extent, in bonds which pay holders a coupon periodically until maturity of the bonds, when the face value is due.

The following chart describes the industry breakdown of our bank loans as of December 31, 2007 (based on par value):

Bank Loans by Industry

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

Building and real estate	3.29%
Personal, food and miscellaneous services	2.98%
Automobile	2.63%
Finance	2.57%
Leisure, amusement, motion pictures, entertainment	2.45%
Containers, packaging and glass	2.22%
Aerospace and defense	2.14%
Personal and non durable consumer products (mfg. only)	2.07%
CDO	2.03%
Ecological	1.97%
Textiles and leather	0.88%
Personal and nondurable consumer products	0.87%
Electronics	0.72%
Personal transportation	0.64%
Cargo transport	0.45%
Farming and agriculture	0.36%
Insurance	0.34%
Machinery (non-agriculture, non-construction, non-electronic)	0.33%
Packaging and forest products	0.28%
Home and office furnishings, housewares and durable consumer products	0.23%
Mining, steel, iron and non-precious metals	0.21%
Diversified natural resource, precious metals and minerals	0.09%

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

- general office equipment, such as office machinery, furniture and telephone and computer systems;
- medical and dental practices and equipment for diagnostic and treatment use;
- energy and climate control systems;
- industrial equipment, including manufacturing, material handling and electronic diagnostic systems; and
- agricultural equipment and facilities.

The following charts describe the industry and the geographic breakdown of our equipment leases and notes as of December 31, 2007 (based on par value):

Equipment Lease and Notes by Industry

Geographic by State

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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. We hold the equity interest in the trust, with the preferred securities of the trust being sold to investors. The trust invests the proceeds of the preferred securities in the sponsoring company through the purchase of the debenture issued by us. Issuers of trust preferred securities are generally affiliated with financial institutions because, under current regulatory and tax structures, unlike the proceeds from debt securities the proceeds from trust preferred securities may be treated as primary regulatory capital by the financial institution, while it may deduct the interest it pays on the debt obligation held by the trust from its income for federal income tax purposes.

We may invest in other ABS other than trust preferred securities, principally CDOs backed by small business loans and trust preferred securities of financial institutions such as banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITs. As with CDOs collateralized by ABS-RMBS and CMBS, discussed above, we may invest in either the equity or debt tranches of the CDOs.

Competition

See “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 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 generally accepted accounting principles 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 based on the product of (i) 25% of the dollar amount by which, (A) our net income (determined in accordance with GAAP) per common share (before non-cash equity compensation expense and incentive compensation), but after the base management fee, for a quarter (based on the weighted average number of shares outstanding) exceeds, (B) an amount equal to (1) the weighted average share price of shares of common stock in our offerings, multiplied by, (2) the greater of (a) 2.00% or (b) 0.50% plus one-fourth of the Ten Year Treasury rate (as defined in the management agreement) for such quarter, multiplied by, (ii) the weighted average number of common shares outstanding for the quarter. The calculation may be adjusted for one-time events due to changes in GAAP as well as other non-cash charges upon approval of our independent directors.

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

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Incentive compensation will be paid quarterly. 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 expires on March 31, 2008 and will be automatically renewed for a one-year term on that date and each anniversary date thereafter. Our board of directors will review the Manager's performance annually. After the initial term, the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. Our board of directors must provide 180 days' prior notice of any such termination. The Manager will be paid a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

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

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

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

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

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

- the dissolution of the Manager; and

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

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

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

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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, 2007 held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, which we refer to as "qualifying real estate assets." Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued, and does not intend to issue, redeemable securities.

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

We treat our investments in whole loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. We do not expect that investments in non-whole pool loans, CDOs, other ABS, bank loans, equipment leases and notes, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

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

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

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

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

Employees

We have no direct employees. Under our management agreement, the Manager provides us with all management and support personnel and services necessary for our day-to-day operations. We depend upon the Manager and Resource America for personnel and administrative infrastructure. To provide its services, the Manager draws upon the expertise and experience of Resource America which, as of December 31, 2007 and 2006, had 719 and 237 employees, respectively, involved in asset management, including 208 and 82 asset management professionals and 511 and 155 asset management support personnel, respectively.

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; 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.

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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.

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."

Risks Related to Our Business

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

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

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

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

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

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

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

The Manager is entitled to receive a monthly base management fee equal to 1/12 of our equity, as defined in the management agreement, times 1.50%, 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.

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

In addition to its base management fee, the Manager will receive incentive compensation, payable quarterly, equal to 25% of the amount by which our net income, as defined in the management agreement, exceeds the weighted average prices for our common stock in all of our offerings multiplied by the greater of 2.00% or 0.50% plus one-fourth of the average 10-year treasury rate for such quarter, multiplied by the weighted average number of common shares outstanding during the quarter. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead the Manager to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yields generally have higher risk of loss than investments with lower yields.

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

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

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

Subject to maintaining our qualification as a REIT and our exclusion from regulation under the Investment Company Act, we may change our investment strategy, including the percentage of assets that may be invested in each class, or in the case of securities, in a single issuer, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this 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 you. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this prospectus.

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

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

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

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

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

Our management agreement does not prohibit the Manager or Resource America from investing in or managing entities that invest in asset classes that are the same as or similar to our targeted asset classes, except that they may not raise funds for, sponsor or advise any new publicly-traded REIT that invests primarily in 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 the officers, directors and employees of Resource America who provide services to us are not required to work full time on our affairs, and anticipate devoting significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.

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

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

We currently leverage our portfolio through securitizations, including CDOs, secured term facilities, issuance of trust preferred securities, repurchase agreements, warehouse facilities, bank credit facilities and other forms of borrowing. Depending on market conditions and credit availability, we will seek to continue using these borrowing sources although, as a result of conditions in the credit markets that arose in the second half of 2007, we cannot assure you that we will be able to do so on acceptable terms, or at all. As of December 31, 2007, our outstanding indebtedness was $1.8 billion and our leverage ratio was 6.5 times. 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 will increase relative to the income from the assets financed, reducing the income we have available to pay distributions, and

- our investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing we obtain will not be as favorable as the terms of existing financing.

If we are unable to secure refinancing of our currently outstanding financing, when due, on acceptable terms, we may be forced to dispose of some of our assets upon disadvantageous terms or to obtain financing at unfavorable terms, either of which may result in losses to us or reduce the cash flow available to meet our debt service obligations or to pay distributions.

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

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

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

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

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

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.

We have financed our commercial real estate-related loans, CMBS, commercial finance assets and ABS-RMBS, primarily through CDOs in which we had 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. A CDO is a special purpose vehicle that purchases collateral that is expected to generate a stream of interest or other income. The CDO issues various classes of securities that participate in that income stream, typically one or more classes of debt instruments and a class of equity securities. The equity interests are subordinate in right of payment to all other securities issued by the CDO. The equity is usually entitled to all of the income generated by the CDO after the CDO pays all of the interest due on the debt securities and other expenses. However, there will be little or no income available to the CDO equity if there are excessive defaults by the issuers of the underlying collateral. In that event, the value of our investment in the CDO’s equity could decrease substantially. In addition, the equity securities of CDOs are generally illiquid, and because they represent a leveraged investment in the CDO’s assets, the value of the equity securities will generally have greater fluctuations than the value of the underlying collateral.

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

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

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

We classify a substantial portion of our assets for accounting purposes as “available-for-sale.” As a result, changes in the market values of those assets are directly charged or credited to stockholders’ equity. A decline in these values will reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale asset is other than temporary, such decline will reduce earnings. During the second half of 2007, as a result of credit market conditions, we recorded asset impairments of $26.3 million on our ABS-RMBS portfolio.

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

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

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

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

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

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

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

If we issue 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, to restrict distributions, and to require approval to sell assets. These covenants could make it more difficult to execute our investment strategy and achieve our investment objectives. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock. We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities.

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

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

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

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 controls, fail to correct any issues in the design or operating effectiveness of internal controls over financial reporting, or fail to prevent fraud, our shareholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

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Risks Related to Our Investments

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

A significant risk associated with our investment in commercial real estate-related loans, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of our assets would decline. Even if the mortgages underlying any MBS we may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, or those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, because of the short-term nature of the financing we have historically used to acquire our investments, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread. This could result in reduced profitability and distributions.

We receive income from our interest in an entity that has invested in sub-prime mortgages which may be reduced or eliminated if the default rate on these assets increases.

During the second half of 2007, as a result of delinquencies and foreclosures in the sub-prime mortgage portfolio of Ischus CDO II, then wholly-owned by us, we recorded asset impairments of $26.3 million on our ABS-RMBS portfolio held by Ischus CDO II. We sold a 10% portion of the equity investment in this portfolio in the quarter ended December 31, 2007 and deconsolidated the portfolio from our balance sheet. However, we continue to receive cash flow from Ischus CDO II, after giving effect to our sale of the 10% interest, which amounted to $465,000 for the quarter ended December 31, 2007. If the delinquencies and foreclosures in the Ischus CDO II portfolio continue to increase, our cash flow from the portfolio may be reduced or eliminated.

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

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

A B note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B note owners after payment to the senior note owners. 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 losses.

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

Historically, we have invested in the trust preferred securities of financial institutions or CDOs collateralized by these securities. Depending upon future market conditions (and subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act)) we may do so in the future. Investing in these securities involves a higher degree of risk than investing in senior secured loans, including the following:

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

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

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

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

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

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

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

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

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

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

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

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

If we use CDOs in the future, we expect to accumulate assets through repurchase agreement facilities or warehouse facilities. If we do not consummate a CDO for which we have been accumulating assets on one of these facilities, the collateral will be sold and we will bear any loss resulting from the purchase price of the collateral exceeding the sale price up to the amount of our investment or guaranty with respect to the facility.

If we use CDOs in the future, we expect to accumulate assets through repurchase agreement facilities or warehouse facilities with investment banks or other financial institutions, pursuant to which the institutions will initially finance the purchase of the collateral that will be transferred to the CDOs. The Manager will select the collateral. If we do not consummate the CDO transaction, the institution would liquidate the collateral and we would have to pay any amount by which the original purchase price of the collateral exceeds its sale price up to the amount of our investment or guaranty, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the CDO transaction is consummated, if any of the collateral is sold before the consummation, we will have to bear any resulting loss on the sale up to the amount of our investment or guaranty.

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

During the accumulation period for a CDO, we may not be able to acquire a sufficient amount of eligible assets to maximize the efficiency of a CDO issuance. In addition, conditions in the capital markets may make the issuance of CDOs less attractive to us when we do have a sufficient pool of collateral. If we are unable to issue a CDO to finance these assets, we may have to seek other forms of potentially less attractive financing or otherwise to liquidate the assets at a price that could result in a loss of all or a portion of the cash and other collateral backing our purchase commitment or require us to make payments under any guaranties we have given.

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

If any of the assets that we originate or acquire and sell or securitize 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.

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

We have used short-term borrowings, principally repurchase agreements, to accumulate commercial real estate assets. As these short-term borrowings mature, we will be required either to enter into new borrowings or to sell certain of our investments at times when we might otherwise not choose to do so. At December 31, 2007, we had $116.4 million of outstanding repurchase agreements with a weighted average maturity of 19 days. We have also used a secured term facility to finance our direct financing leases and notes. At December 31, 2007, this facility had $91.7 million outstanding with a weighted average maturity of 2.2 years. An increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would reduce returns on our assets, which would reduce earnings and, in turn, cash available for distribution to our stockholders.

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

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

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

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

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

Many of our investments may be susceptible to economic slowdowns or recessions or declines in real estate values, which could lead to financial losses on our investments and a decrease in revenues, net income and assets. Beginning in the second half of 2007, there have been unparalleled disruptions in the credit markets, affecting every class of financial asset, but most dramatically in the United States sub-prime mortgage markets. During the second half of 2007, these unprecedented events resulted in an asset impairment of $26.3 million on our ABS-RMBS portfolio. Continued unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and reduce or eliminate our earnings and ability to make distributions.

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

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

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.

- 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.

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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 may enter into hedging instruments that would require us to fund cash payments in the future under certain circumstances, for example, upon the early termination of the instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the instrument. The amount due would be equal to the unrealized loss of the open positions with the counterparty and could also include other fees and charges. These losses will be reflected in our financial results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

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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 expense or limit rents that may be charged,
- any need to address environmental contamination at the property,
- the occurrence of any uninsured casualty at the property,
- changes in national, regional or local economic conditions and/or specific industry segments,
- declines in regional or local real estate values,
- declines in regional or local rental or occupancy rates,
- increases in interest rates, real estate tax rates and other operating expenses,
- transitional nature of a property being converted to an alternate use;
- 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.

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

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

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

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

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

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

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 and adversely affect our operating results. Our allowance for loan and lease losses is based 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, as our loan and lease portfolios grow, 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 portfolio. 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. This occurrence could materially affect our earnings.

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

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

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Risks Related to Our Organization and Structure

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

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

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

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

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

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

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

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

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

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders' meeting or if the acquiring person does not deliver an acquiring person statement as required by the Maryland Control Share Acquisition Act then, subject to specific conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our board of directors may amend our bylaws in the future to repeal this exemption.

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Business combinations. Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transferor issuance or reclassification of equity securities. An interested stockholder is defined as:

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

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

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

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

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

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

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

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

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present or former director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

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Our right to take action against the Manager is limited.

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

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

We expect to make quarterly distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to make distributions may be impaired by the risk factors described in this 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.

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.

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

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

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

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

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

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

If we realize excess inclusion income, we will be taxed at the highest corporate income tax rate on a portion of such income that is allocable to the percentage of our stock held in record name by “disqualified organizations,” which are generally cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business taxable income. To the extent that our stock owned by “disqualified organizations” is held in record name by a broker/dealer or other nominee, the broker/dealer or other nominee would be liable for the corporate level tax on the portion of our excess inclusion income allocable to the stock held by the broker/dealer or other nominee on behalf of “disqualified organizations.” We expect that disqualified organizations will own our stock. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A regulated investment company or other pass through entity owning stock in record name will be subject to tax at the highest corporate rate on any excess inclusion income allocated to its owners that are disqualified organizations. Finally, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations, for federal income tax purposes that cannot be included in any consolidated corporate tax return.

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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 years ended on December 31, 2005 and 2006. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

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

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

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

- 85% of our ordinary income for that year;
- 95% of our capital gain net income for that year; and
- 100% our undistributed taxable income from prior years.

We intend to make distributions to our stockholders in a manner intended to satisfy the 90% distribution requirement and to distribute all or substantially all of our net taxable income to avoid both corporate income tax and the 4% nondeductible excise tax. There is no requirement that a domestic TRS distribute its after-tax net income to its parent REIT or their stockholders and Resource TRS may determine not to make any distributions to us. However, non-U.S. TRSs, such as Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, 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.

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.

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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 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns, whether or not it distributes that income to us. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

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

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

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

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

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

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

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

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

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

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

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

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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 Naval Yard Corporate Center under a lease for 13,484 square feet that expires in May 2019. It also leases 21,554 square feet for additional executive office space at 1845 Walnut Street. This lease, which expires in May 2008, contains extension options through 2033. The Manager's commercial finance operations are located in another office building at 1 Commerce Square, 2005 Market Street under a lease for 59,448 square feet that expires in August 2013.

New York City, New York:

Our Manager maintains additional executive offices in a 19,590 square foot location in New York City at 712 5th Avenue under a lease agreement that expires in March 2010.

Other:

Our Manager maintains another office in Los Angeles, California under a lease agreement that expires in August 2009.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of our security holders during the fourth quarter of 2007.

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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 2007			
Fourth Quarter	$ 12.49	$ 8.14	$ 0.41(1)
Third Quarter	$ 14.20	$ 7.50	$ 0.41
Second Quarter	$ 16.85	$ 13.98	$ 0.41
First Quarter	$ 18.78	$ 14.67	$ 0.39
Fiscal 2006			
Fourth Quarter	$ 17.73	$ 15.09	$ 0.43(2)
Third Quarter	$ 15.67	$ 12.01	$ 0.37
Second Quarter	$ 14.23	$ 12.00	$ 0.36
First Quarter	$ 14.79	$ 13.67	$ 0.33

(1) We distributed a regular dividend ($0.41) payable on January 14, 2008, for stockholders of record on December 31, 2007.

(2) We distributed a regular dividend ($0.38) and a special dividend ($0.05), payable on January 4, 2007, for stockholders of record on December 15, 2006.

We are organized and conduct our operation to qualify as a real estate investment trust, or 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 seems relevant.

As of March 10, 2008, there were 25,264,793 common shares outstanding held by 121 persons of record.

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

In accordance with the provisions of the management agreement, on July 31, 2007, April 30, 2007 and January 31, 2007 we issued 26,194, 11,349 and 9,960 shares of common stock, respectively, to the Manager. These shares represented 50% of the Manager's quarterly incentive compensation fee that accrued for the three months ended June 30, 2007 and 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended March 31, 2007 and December 31, 2006, respectively. The issuance of these shares was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

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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, 2007. 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.

For information concerning securities authorized for issuance under our equity compensation plans, see Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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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 Year Ended December 31,		As of and for the Period from March 8, 2005 (Date Operations Commenced) to December 31,
	2007	2006	2005
Consolidated Statement of Operations Data			
REVENUES			
Net interest income:			
Interest income	$ 176,995	$ 137,075	$ 61,387
Interest expense	121,564	101,851	43,062
Net interest income	55,431	35,224	18,325
OPERATING EXPENSES			
Management fees – related party	6,554	4,838	3,012
Equity compensation – related party	1,565	2,432	2,709
Professional services	2,911	1,881	580
Insurance	466	498	395
General and administrative	1,581	1,428	1,032
Income tax expense	338	67	–
Total operating expenses	13,415	11,144	7,728
NET OPERATING INCOME	42,016	24,080	10,597
OTHER (EXPENSES) REVENUES			
Net realized (losses) gains on investments	(15,098)	(8,627)	311
Gain on deconsolidation	14,259	–	–
Provision for loan and lease losses	(6,211)	–	–
Asset impairments	(26,277)	–	–
Other income	201	153	–
Total other (loss) revenue	(33,126)	(8,474)	311
NET INCOME	$ 8,890	$ 15,606	$ 10,908
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 6,029	$ 5,354	$ 17,729
Restricted cash	119,482	30,721	23,592

Available-for-sale securities, pledged as collateral, at fair value		65,464		420,997		1,362,392
Available-for-sale securities, at fair value		–		–		28,285
Loans, net of allowances of $5.9 million, $0 and $0		1,766,639		1,240,288		569,873
Direct financing leases and notes, net of allowances of $0.3 million, $0 and $0 and net of unearned income		95,030		88,970		23,317
Total assets		2,072,148		1,802,829		2,045,547
Borrowings		1,760,969		1,463,853		1,833,645
Total liabilities		1,800,542		1,485,278		1,850,214
Total stockholders' equity		271,606		317,551		195,333
Per Share Data:						
Dividends declared per common share	$	1.62	$	1.49	$	0.86
Net income per share – basic	$	0.36	$	0.89	$	0.71
Net income per share – diluted	$	0.36	$	0.87	$	0.71
Weighted average number of shares outstanding – basic		24,610,468		17,538,273		15,333,334
Weighted average number of shares outstanding – diluted		24,860,184		17,881,355		15,405,714

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

Overview

We are a specialty finance company that focuses primarily on commercial real estate and commercial finance. 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 finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

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

Beginning in the second half of 2007, there have been unprecedented disruptions in the credit markets, abrupt and significant devaluations of assets directly or indirectly linked to the U.S. real estate finance markets, and the attendant removal of liquidity, both long and short term, from the capital markets. These conditions have had, and we expect will continue to have, an adverse effect on us and companies we finance. During 2007, we recorded asset impairments of $26.3 million on our ABS-RMBS portfolio due primarily to credit defaults related to the residential mortgage sector on securities financed by a collateralized securitization in which we have invested. This asset impairment was a primary cause of the reduction in net income in 2007 from 2006. In addition, during 2007, the market valuation for CMBS in our investment portfolio was temporarily impaired and, as a result, our ability to finance them was reduced. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2007, we cannot assure you that further impairment will not occur or that our assets will otherwise not be adversely effected by market conditions.

The events occurring in the credit markets have impacted our financing strategies. The market for securities issued by securitizations collateralized by assets similar to those in our investment portfolio has contracted severely. While we were able to sponsor two new securitizations in 2007, we expect our ability to sponsor new securitizations will be limited for the foreseeable future. Short-term financing through warehouse lines of credit and repurchase agreements has become less available and reliable as increasing volatility in the valuation of assets similar to those we originate has increased the risk of margin calls. These events have impacted (and we expect will continue to impact) our ability to finance our business on a long-term, match-funded basis and may impede our ability to originate loans and securities.

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Beginning in the second half of 2007, we have focused on managing our exposure to liquidity risks primarily by reducing our exposure to possible margin calls under repurchase agreements, seeking to conserve our liquidity. We have continued to manage our liquidity and originate new assets primarily through capital recycling as payoffs occur and through existing capacities within our completed securitizations.

While we recorded asset impairments as a result of the developments in the credit markets resulting in our reduced net income in 2007, we declared common dividends of $1.62 per share on estimated REIT taxable income of approximately $1.71 per share. We reconcile REIT taxable income, a non-GAAP measure, to GAAP net income and explain how our management uses this measure in "-REIT Taxable Income," below. We expect to continue to generate net investment income from our current investment portfolio and generate dividends for our shareholders. We are also seeking to develop new sources of financing, including additional bank financing, and increased use of co-investment, participations and joint venture strategies that will enable us to originate investments and generate fee income while preserving capital.

We consolidate Variable Interest Entities, or VIEs, if we determine we are the primary beneficiary, in accordance with Financial Accounting Standards Board, FASB Interpretation 46, "Consolidation of Variable Interest Entities," as revised, or FIN 46-R". During the year ended December 31, 2007, we sold ten percent of our equity investment in Ischus CDO II to an independent third party at market value. The sale was deemed to be a reconsideration event under FIN 46-R and we determined we were no longer the primary beneficiary. Therefore, we deconsolidated Ischus CDO II and wrote down our investment in the CDO by $15.6 million to market value. We recorded this loss in net realized gain (loss) on investments on our consolidated statement of income. Additionally, the losses we recorded on the sales of the net assets were in excess of our cost basis and we recorded a gain on the deconsolidation of Ischus CDO II of $14.3 million. The losses on the sales of the net assets were in excess of our cost basis due to the other than temporary impairments we recorded on investments in securities held by the CDO. We have recorded the gain on deconsolidation on our consolidated statement of income. We discuss the deconsolidation of Ischus CDO II in more detail in Note 4 to the notes to our consolidated financial statements included in Item 8 of this report. We will continue to recognize income in our investment in Ischus CDO II using the cost recovery method. From the date of deconsolidation to December 31, 2007, no income was recognized on this investment but we did collect cash distributions of $465,000, all of which was applied as a reduction of our investment. We will continue to manage Ischus CDO II, but our remaining exposure at December 31, 2007 was $257,000.

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

As of December 31, 2007, we had invested 75% of our portfolio in commercial real estate-related assets, 24% in commercial bank loans and 1% in direct financing leases and notes. As of December 31, 2006, we had invested 77% of our portfolio in commercial real estate-related assets, 14% in commercial bank loans, 8% in ABS-RMBS and 1% in direct financing leases and notes.

Results of Operations

Our net income for the year ended December 31, 2007 was $8.9 million, or $0.36 per weighted average common share (basic and diluted) as compared to $15.6 million, or $0.89 per weighted average common share (basic and diluted), for the year ended December 31, 2006 and compared to $10.9 million, or $0.71 per weighted average common shares–basic ($0.71 per weighted average common share-diluted) for the period from March 8, 2005 (date operations commenced) to December 31, 2005.

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Interest Income

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

	As of and for the Years Ended December 31, 2007	As of and for the Years Ended December 31, 2006	As of and for the Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
Interest income:			
Interest income from loans:			
Bank loans	$ 70,183	$ 42,526	$ 11,903
Commercial real estate loans	67,895	28,062	2,759
Total interest income from loans	138,078	70,588	14,662
Interest income from securities available for sale:			
Agency RMBS	–	28,825	31,134
Non-agency RMBS	21,837	24,102	11,142
CMBS	1,394	1,590	1,110
CMBS-private placement	4,082	87	–
Other	1,496	1,414	811
Private equity	–	30	50
Total interest income from securities available-for-sale	28,809	56,048	44,247
Leasing	7,553	5,259	578
Interest income – other:			
Interest rate swap agreements	–	3,755	–
Temporary investment in over-night repurchase agreements	2,555	1,424	1,900
Total interest income – other	2,555	5,179	1,900
Total interest income	$ 176,995	$ 137,074	$ 61,387

	Weighted Average Rate	Weighted Average Balance	Weighted Average Rate	Weighted Average Balance	Weighted Average Rate	Weighted Average Balance
	Year Ended December 31,		Period Ended December 31,		Period Ended December 31,	
	2007 (1)	2007	2006 (1)	2006	2005 (1)	2005
Interest income:						
Interest income from loans:						
Bank loans	7.42%	$ 911,514	7.41%%	$ 565,414	6.06%	$ 565,414
Commercial real estate loans	8.58%	$ 781,954	8.55%%	$ 325,301	6.90%	$ 325,301

Interest income from securities available for sale:								
Agency RMBS	N/A	$	–	4.60%%	$	621,299	4.50%	$	867,388
Non-agency RMBS	7.09%	$	303,960	6.76%%	$	344,969	5.27%	$	251,940
CMBS	5.67%	$	24,549	5.65%%	$	27,274	5.57%	$	24,598
CMBS-private placement	6.45%	$	61,952	5.46%%	$	1,564	5.25%	$	19,118
Other	6.96%	$	21,094	6.69%%	$	21,232	N/A	$	–
Private equity	N/A	$	–	16.42%%	$	170	6.29%	$	923
Leasing	8.71%	$	85,092	8.57%%	$	62,612	9.44%	$	7,625
Interest income – other:								
Interest rate swap agreements	N/A	$	–	0.78%%	$	511,639	0.78%	$	511,639
Temporary investment in over-night repurchase agreements	N/A	$	–	N/A	$	–	N/A	$	–

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

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Year Ended December 31, 2007 as compared to Year Ended December 31, 2006

Interest income increased $39.9 million (29%) to $177.0 million for the year ended December 31, 2007, from $137.1 million for the year ended December 31, 2006. We attribute this increase to the following:

Interest Income from Loans

Interest income from loans increased $67.5 million (96%) to $138.1 million for the year ended December 31, 2007 from $70.6 million for the year ended December 31, 2006.

Bank loans generated $70.2 million of interest income for the year ended December 31, 2007 as compared to $42.5 million for the year ended December 31, 2006, an increase of $27.7 million (65%). This increase resulted primarily from the following:

- an increase of $346.1 million in the weighted average balance of loans primarily from the accumulation of investments by our third bank loan CDO, Apidos Cinco CDO, which closed on May 30, 2007 and had $331.2 million of assets at December 31, 2007. In addition, 2007 reflects a full year of income for Apidos CDO III which closed on May 9, 2006 while the prior year reflects only a partial year of income. Apidos CDO III had $270.9 million in assets at December 31, 2007.

Commercial real estate loans produced $67.9 million of interest income for the year ended December 31, 2007 as compared to $28.1 million for the year ended December 31, 2006, an increase of $39.8 million (142%). This increase resulted from the following:

- an increase of $456.7 million in the weighted average balance of loans primarily from the accumulation of investments by our second CRE CDO, Resource Real Estate Funding 2007-1, or RREF 2007-1, which closed on June 26, 2007 and had $463.0 million of assets at December 31, 2007. In addition, 2007 reflects a full year of income for Resource Real Estate Funding 2006-1, or RREF 2006-1, which closed on August 10, 2006 while the prior year reflects only a partial year of income. RREF 2006-1 had $291.7 million in assets at December 31, 2007; and

- a $505,000 acceleration of loan origination fees as a result of loan sales that are included as part of interest income for the year ended December 31, 2007. There was no such acceleration of fees for the year ended December 31, 2006.

This increase was offset by a decrease in the interest rate on these loans to 8.06% for the year ended December 31, 2007 from 8.26% for the year ended December 31, 2006, primarily due to the interest rates on $421.9 million of whole loans we added during the year ended December 31, 2007.

Interest Income from Securities Available-for-Sale

The increase in interest income from loans was offset by a decrease in interest income from securities available-for-sale. Interest income from securities available-for-sale decreased $27.2 million (49%) to $28.8 million for the year ended December 31, 2007 from $56.0 million for the year ended December 31, 2006. The decrease in interest income from securities available-for-sale resulted principally from the following:

- the sale of $125.4 million of our agency ABS-RMBS portfolio in January 2006 and the sale of the remaining $753.1 million of these securities in September 2006. This portfolio had generated $28.8 million of interest income for the year ended December 31, 2006. As a result of the sale, we generated no agency ABS-RMBS interest income during the year ended December 31, 2007;

- our non-agency ABS-RMBS contributed $21.8 million of interest income for the year ended December 31, 2007, as compared to $24.1 million for the year ended December 31, 2006, a decrease of $2.3 million (9%) primarily due to the deconsolidation of Ischus CDO II on November 13, 2007 which came as a result of the sale of a 10% portion of our equity ownership, a reconsideration event in accordance with FIN 46-R; and

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- our CMBS contributed $1.4 million of interest income for the year ended December 31, 2007, as compared to $1.6 million for the year ended December 31, 2006, a decrease of $196,000 (12%) for the year ended December 31, 2006 primarily due to the deconsolidation of Ischus CDO II on November 13, 2007.

The decrease was partially offset by the following:

- our CMBS-private placement portfolio contributed $4.1 million of interest income for the year ended December 31, 2007, as compared to $87,000 for the year ended December 31, 2006, an increase of $4.0 million (4,592%) due to the accumulation of securities in this portfolio beginning in December 2006.

Interest Income - Leasing

Our equipment leasing portfolio generated $7.6 million of interest income for the year ended December 31, 2007 as compared to $5.3 million for the year ended December 31, 2006, an increase of $2.3 million (44%). This increase resulted from the following:

- the increase of $22.4 million in the weighted average balance of leases primarily from the addition of leases we funded following the closing of our secured term credit facility in March 2006; and

- an increase in the weighted average interest rate on these leases to 8.71% for the year ended December 31, 2007 from 8.57% for the year ended December 31, 2006.

Interest Income - Other

The overall increase in interest income was impacted by a decrease in interest income - other. Interest income - other decreased $2.6 million (51%) to $2.6 million for the year ended December 31, 2007, as compared to $5.2 million for the year ended December 31, 2006. This was due to interest rate swap agreements which generated $3.8 million of interest income for the year ended December 31, 2006. Our swaps generated interest expense for the year ended December 31, 2007 due to reductions in market interest rates which caused the fixed rate we paid to exceed the floating rate we received under these agreements during the year.

The decrease of interest income – other was offset by an increase in our temporary investment income which increased $1.2 million (79%) to $2.6 million for the year ended December 31, 2007 from $1.4 million for the year ended December 31, 2006. This increase is primarily due to an increase of $1.1 million in sweep income from our two commercial real estate CDOs, RREF 2006-1 and RREF 2007-1. The year ended December 31, 2007 contains a full year of income for RREF 2006-1 which closed in August 2006 and six months of income for RREF 2007-1 which closed at the end of June 2007. The year ended December 31, 2006 contains four months of income for RREF 2006-1 and no income for RREF 2007-1.

Year Ended December 31, 2006 as compared to Period Ended December 31, 2005

During 2005, we were in the process of acquiring and building our investment portfolio. As a result, we acquired a substantial amount of commercial real estate loans and commercial finance assets after the period ended December 31, 2005 had been completed. This balance sheet trend is important in comparing and analyzing the results of operations for the 2006 and 2005 periods presented.

In addition, since we commenced operations on March 8, 2005, results for the period ended December 31, 2005 reflect less than ten months of activity as compared with the full year ended December 31, 2006.

Interest income increased $75.7 million (123%) to $137.1 million for the year ended December 31, 2006, from $61.4 million for the period ended December 31, 2005. We attribute this increase to the following:

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Interest Income from Loans

Interest income from loans increased $55.9 million (381%) to $70.6 million for the year ended December 31, 2006 from $14.7 million for the period ended December 31, 2005.

Bank loans generated $42.5 million of interest income for the year ended December 31, 2006 as compared to $11.9 million for the period ended December 31, 2005, an increase of $30.6 million (257%). This increase resulted primarily from the following:

- The acquisition of $433.7 million of bank loans (net of sales of $91.0 million) during the year ended December 31, 2005, which were held for the entire year ended December 31, 2006.
- The acquisition of $366.1 million of bank loans (net of sales of $128.5 million) since December 31, 2005.
- An increase in the weighted average interest rate on these loans to 7.41% for the year ended December 31, 2006 from 6.06% for the period ended December 31, 2005 due primarily to the increase in the London Interbank Offered Rate, or LIBOR.

These acquisitions and the increase in weighted average rate were partially offset by the receipt of principal payments on bank loans totaling $150.4 million since December 31, 2005.

Commercial real estate loans produced $28.1 million of interest income for the year ended December 31, 2006 as compared to $2.8 million for the period ended December 31, 2005, an increase of $25.3 million (917%). This increase resulted entirely from the following:

- The acquisition of $454.3 million of commercial real estate loans (net of principal payments of $55.2 million) during the year ended December 31, 2006.
- The increase of the weighted average interest rate on these loans to 8.44% for the year ended December 31, 2006 from 6.90% for the period ended December 31, 2005 due primarily to the increase in interest rates earned on assets acquire during 2006.

Interest Income from Securities Available-for-Sale

Interest income from securities available-for-sale increased $11.8 million (27%) to $56.0 million for the year ended December 31, 2006, from $44.2 million for the period ended December 31, 2005.

ABS-RMBS contributed $24.1 million of interest income for year ended December 31, 2006 as compared to $11.1 million for the period ended December 31, 2005, an increase of $13.0 million (117%). This increase resulted primarily from the following:

- The acquisition of $348.2 million of ABS-RMBS (net of sales of $3.0 million) during the period ended December 31, 2005, which was held for the entire year ended December 31, 2006, respectively.
- An increase in the weighted average interest rate on these securities to 6.76% for the year ended December 31, 2006 from 5.27% for the period ended December 31, 2005 due primarily to the increase in LIBOR.

These acquisitions and the increase in the weighted average rate were partially offset by the receipt of principal payments on ABS-RMBS totaling $3.0 million since December 31, 2005.

CMBS contributed $1.6 million for the year ended December 31, 2006 as compared to $1.1 million for the period ended December 31, 2005, an increase of $500,000 (45%). This increase resulted primarily from the following:

- The acquisition of $28.0 million of CMBS during the period ended December 31, 2005, which were held for the entire year ended December 31, 2006.

- An increase in the weighted average interest rate on these securities to 5.65% for the year ended December 31, 2006 from 5.57% for the period ended December 31, 2005 due primarily to the increase in LIBOR.

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Other ABS contributed $1.4 million of interest income for the year ended December 31, 2006 as compared to $811,000 for the period ended December 31, 2005, an increase of $589,000 (73%). This increase resulted primarily from the following:

- The acquisition of $23.1 million of ABS (net of sales of $5.5 million) during the period ended December 31, 2005, which were held for the entire year ended December 31, 2006.

- An increase in the weighted average interest rate on these securities to 6.70% for the year ended December 31, 2006 from 5.25% for the period ended December 31, 2005 due primarily to the increase in LIBOR.

These acquisitions and the increase in the weighted average rate were partially offset by the receipt of principal payments on other ABS totaling $1.5 million since December 31, 2005.

CMBS-private placement contributed $87,000 for the year ended December 31, 2006 due to the purchase of $30.1 million of securities in December 2006. We held no such securities for the period ended December 31, 2005.

These increases were partially offset by the decrease in interest income from our agency ABS-RMBS portfolio which generated $28.8 million of interest income for the year ended December 31, 2006 as compared to $31.1 million for the period ended December 31, 2005, a decrease of $2.3 million (7%). This change primarily resulted from the sell-off of our agency ABS-RMBS portfolio beginning in January 2006 with the sale of approximately $125.4 million of portfolio securities and the sale of the remaining $753.1 million of portfolio securities in September 2006.

Interest Income from Leases

Interest income on our equipment leasing portfolio increased $4.7 million (810%) to $5.3 million for the year ended December 31, 2006, as compared to $578,000 for the period ended December 31, 2005, resulting from the purchase of $64.8 million of equipment leases and notes (net of principal payments and sales of $41.9 million) subsequent to December 31, 2005.

Interest Income — Other

Interest income – other increased $3.3 million (173%) to $5.2 million for the year ended December 31, 2006 as compared to $1.9 million for the period ended December 31, 2005.

Interest rate swap agreements generated $3.8 million for the year ended December 31, 2006 resulting from increases in the floating rate index we receive under our swap agreements. During the prior year, the floating rate we received did not exceed the fixed rate we paid under these same agreements. The resulting interest expense of $516,000 was included in general interest expense for the period ended December 31, 2005. As a result, no interest income from interest rate swap agreements was generated for the year ended December 31, 2005.

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Interest Expense

Year Ended December 31, 2007 as compared to Year Ended December 31, 2006

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

	As of and for the Years Ended December 31, 2007	As of and for the Years Ended December 31, 2006	As of and for the Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
Interest expense:			
Bank loans	$ 52,466	$ 30,903	$ 8,149
Commercial real estate loans	37,184	14,436	1,090
Agency RMBS	–	28,607	23,256
Non-agency / CMBS / ABS	19,794	21,666	10,003
CMBS – private placement	1,223	83	–
Leasing	5,595	3,659	–
General	5,302	2,497	564
Total interest expense	$ 121,564	$ 101,851	$ 43,062

	Weighted Average Rate	Balance	Weighted Average Rate	Balance	Weighted Average Rate	Balance
	Year Ended December 31,		Year Ended December 31,		Period Ended December 31,	
	2007 (1)	2007	2006 (1)	2006	2005 (1)	2005
Interest expense:						
Bank loans	5.96%	$ 868,345	5.61%	$ 535,894	4.18%	$ 234,701
Commercial real estate loans	6.29%	$ 582,173	6.42%	$ 224,844	5.15%	$ 25,406
Agency RMBS	N/A	N/A	5.01%	$ 560,269	3.49%	$ 810,868
Non-agency / CMBS / ABS	5.93%	$ 326,458	5.69%	$ 376,000	4.26%	$ 282,646
CMBS – private placement	5.84%	$ 20,571	5.40%	$ 1,519	N/A	N/A
Leasing	6.68%	$ 83,405	6.51%	$ 57,214	N/A	N/A
General	9.91%	$ 51,981	9.52%	$ 24,916	0.09%	$ 709,997

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

Interest expense increased $19.7 million (19%) to $121.6 million for the year ended December 31, 2007, from $101.9 million for the year ended December 31, 2006. We attribute this increase to the following:

Interest expense on bank loans was $52.5 million for the year ended December 31, 2007, as compared to $30.9 million for the year ended December 31, 2006, an increase of $21.6 million (70%). This increase resulted primarily from the following:

- The increase of $332.5 million in the weighted average balance of debt primarily related to the accumulation of investments by, and the closing of our third bank loan CDO, Apidos Cinco CDO, which closed on May 30, 2007 and issued $322.0 of debt. In addition, the current year reflects a full year of interest expense for Apidos CDO III which issued $262.5 million of debt and closed on May 9, 2006. The prior year reflected only eight months of such interest expense.

- The weighted average rate on the debt related to bank loans increased to 5.82% for the year ended December 31, 2007, from 5.46% for the year ended December 31, 2006 due primarily to the increase in LIBOR.

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- We amortized $1.2 million of deferred debt issuance costs related to our CDO financings for the year ended December 31, 2007, compared to $785,000 for the year ended December 31, 2006. This increase resulted primarily from the addition of Apidos Cinco CDO and a full year of deferred debt issuance cost amortization for Apidos CDO III.

Interest expense on commercial real estate loans was $37.2 million for the year ended December 31, 2007, as compared to $14.4 million for the year ended December 31, 2006, an increase of $22.8 million (158%). This increase resulted primarily from the following:

- An increase of $357.3 million in the weighted average balance of debt primarily from the accumulation of investments of our second CRE CDO, RREF 2007-1 which closed on June 26, 2007 and issued $348.9 million of debt at that time. In addition, the current year reflects a full year of interest expense for RREF 2006-1 which closed on August 10, 2006 and issued $265.5 million in debt, while the prior year reflects only five months of such interest expense.

- We amortized $1.4 million of deferred debt issuance costs related to our CDOs and repurchase facility financings for the year ended December 31, 2007, compared to $376,000 for the year ended December 31, 2006 due to primarily a full year of expense from RREF 2006-1, six months of expense from RREF 2007-1 and the closing costs of our three year term facility that closed in April 2007.

This increase was offset by a decrease in the weighted average rate on our financings from 6.25% for the year ended December 31, 2006 to 6.05% at December 31, 2007 primarily due to the issuance of long-term debt by RREF 2006-1 in August 2006 and RREF 2007-1 in June 2007 and the related reduction in repurchase agreement debt for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Interest expense on CMBS-private placement was $1.2 million for the year ended December 31, 2007, as compared to $83,000 for the year ended December 31, 2006, an increase of $1.1 million due to the accumulation of securities in this portfolio beginning in December 2006. There were no such assets prior to December 2006.

Interest expense on our equipment leasing portfolio was $5.6 million for the year ended December 31, 2007, as compared to $3.7 million for the year ended December 31, 2006, an increase of $1.9 million (53%). The increase for the year ended December 31, 2007 resulted from an increase in the amount of direct financing leases and notes we acquired and the related financing after March 31, 2006 and through September 30, 2007. The assets were acquired with cash until the facility closed on March 31, 2006 when we entered into a secured term facility. The increase for the year ended December 31, 2007 was also the result of an increase in the weighted average rate from 6.51% for the year ended December 31, 2006, to 6.68% for the year ended December 31, 2007 due to an increase in the commercial paper rate.

General interest expense was $5.3 million for the year ended December 31, 2007, as compared to $2.5 million for the year ended December 31, 2006, an increase of $2.8 million (112%). This increase resulted from an increase of $2.8 million in interest expense on our unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities which were not issued until May 2006 and September 2006, respectively.

These increases in interest expense were offset by the following:

- Agency ABS-RMBS generated $28.6 million in interest expense for the year ended December 31, 2006. No such expense was incurred for the year ended December 31, 2007 since we sold our agency ABS-RMBS portfolio in January and September 2006 and repaid the related debt.

- ABS-RMBS, CMBS and other asset-backed securities were pooled and financed by Ischus CDO II. Interest expense related to these obligations was $19.8 million for the year ended December 31, 2007, as compared to $21.7 million for the year ended December 31, 2006, a decrease of $1.9 million (9%). This decrease resulted primarily from the deconsolidation of Ischus CDO II on November 13, 2007 as a result of the sale of a 10% portion of our equity ownership, a reconsideration event In accordance with FIN 46-R.

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Year Ended December 31, 2006 as compared to the Period Ended December 31, 2005

During 2005, while we were in the process of acquiring and building our investment portfolio, our borrowing obligations grew in tandem with the related underlying assets. In 2006, we continued to expand our investment portfolio and the amount of our borrowings. In addition, we repaid some of the borrowings existing during 2005 with new borrowings in 2006. These borrowing trends are important in comparing and analyzing interest expense for the 2006 and 2005 periods presented.

In addition, since we commenced operations on March 8, 2005, results for the period ended December 31, 2005 reflect less than ten months of activity as compared with a full year of activity for the year ended December 31, 2006.

Interest expense increased $58.8 million (136%) to $101.9 million for the year ended December 31, 2006 from $43.1 million for the period ended December 31, 2005. We attribute this increase to the following:

Interest expense on bank loans was $30.9 million for the year ended December 31, 2006 as compared to $8.1 million for the period ended December 31, 2005, an increase of $22.8 million (281%). This increase resulted primarily from the following:

- As a result of the continued acquisitions of bank loans after the closing of Apidos CDO I, we financed our second bank loan CDO (Apidos CDO III) in May 2006. Apidos CDO III issued $262.5 million of senior notes into several classes with rates ranging from three-month LIBOR plus 0.26% to three-month LIBOR plus 4.25%. We used the Apidos CDO III proceeds to repay borrowings under a warehouse facility which had a balance at the time of repayment of $222.6 million. The weighted average interest rate on the senior notes was 5.58% for the year ended December 31, 2006 as compared to 4.24% for the period ended December 31, 2005 on the warehouse facility which began accumulating assets in July 2005.

- In August 2005, Apidos CDO I issued $321.5 million of senior notes consisting of several classes with rates ranging from three-month LIBOR plus 0.26% to a fixed rate of 9.25%. The Apidos CDO I financing proceeds were used to repay borrowings under a related warehouse facility, which had a balance at the time of repayment of $219.8 million. The weighted average interest rate on the senior notes was 5.47% for the year ended December 31, 2006 as compared to 4.08% on the warehouse facility and senior notes for the period ended December 31, 2005.

- The weighted average balance of debt related to bank loans increased by $301.2 million to $535.9 million in the year ended December 31, 2006 from $234.7 million for the period ended December 31, 2005.

- We amortized $785,000 of deferred debt issuance costs related to the CDO financings for the year ended December 31, 2006 and $213,000 for the period ended December 31, 2005. This increase resulted from the addition of Apidos CDO III and a full year of deferred debt issuance costs amortization for Apidos CDO I.

Interest expense on commercial real estate loans was $14.4 million for the year ended December 31, 2006 as compared to $1.1 million for the period ended December 31, 2005, an increase of $13.3 million (1,209%). This increase resulted primarily from the following:

- We closed our first commercial real estate loan CDO, Resource Real Estate Funding CDO 2006-1 in August 2006. Resource Real Estate Funding CDO 2006-1 issued $308.7 million of senior notes at par consisting of several classes with rates ranging from one month LIBOR plus 0.32% to one-month LIBOR plus 3.75%. Prior to August 10, 2006, we financed these commercial real estate loans primarily with repurchase agreements. The Resource Real Estate Funding CDO 2006-1 financing proceeds were used to repay a majority of these repurchase agreements, which had a balance at August 10, 2006 of $189.6 million. The weighted average interest rate on the repurchase agreements was 6.07% for the period from January 1, 2006 to August 10, 2006 and was 6.17% on the senior notes from August 10, 2006 through December 31, 2006.

- We financed the growth of our commercial real estate loan portfolio after the closing of Resource Real Estate Funding CDO 2006-1 primarily through repurchase agreements. We had weighted average balances of $224.8 million and $25.4 million of repurchase agreements outstanding at each of December 31, 2006 and 2005.

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- We had a weighted average interest rate of 6.42% for the year ended December 31, 2006 as compared to 5.15% for the period ended December 31, 2005 due primarily to changes in LIBOR and increased spreads on repurchase agreements.

- We amortized $233,000 of deferred debt issuance costs related to Resource Real Estate Funding CDO 2006-1 for the year ended December 31, 2006. No such costs were incurred during the period ended December 31, 2005.

Interest expense related to agency ABS-RMBS repurchase agreements was $28.6 million for the year ended December 31, 2006 as compared to $23.3 million for the period ended December 31, 2005 an increase of $5.3 million (23%). This increase resulted primarily from the following:

- The weighted average interest rate on these repurchase agreement obligations increased to 5.01% for the year ended December 31, 2006 from 3.49% for the period ended December 31, 2005 due primarily to increases in LIBOR.

- The increase in rates was partially offset by a decrease in the average balance of our repurchase agreements financing our agency ABS-RMBS portfolio. Our average repurchase obligations during the year ended December 31, 2006 was $560.3 million as compared with $810.9 million for the period ended December 31, 2005 due to the partial sale of our agency ABS-RMBS portfolio in January 2006 and the subsequent sale of our remaining agency ABS-RMBS in September 2006.

ABS-RMBS, CMBS and other ABS, which we refer to collectively as ABS, were pooled and financed by Ischus CDO II. Interest expense related to these obligations was $21.7 million for the year ended December 31, 2006 as compared to $10.0 million for the period ended December 31, 2005, an increase of $11.7 million (117%). This increase resulted primarily from the following:

- The weighted average interest rate on the senior notes issued by Ischus CDO II was 5.69% for the year ended December 31, 2006 as compared to 4.26% on the warehouse facility and senior notes for the period ended December 31, 2005.

- In July 2005, Ischus CDO II issued $376.0 million of senior notes consisting of several classes with rates ranging from one-month LIBOR plus 0.27% to one-month LIBOR plus 2.85%. The Ischus CDO II proceeds were used to repay borrowings under a related warehouse facility, which had a balance at the time of repayment of $317.8 million and a weighted-average balance of $282.6 million during the period ended December 31, 2005.

- We amortized $591,000 of deferred debt issuance costs related to the Ischus CDO II financing for the year ended December 31, 2006 as compared with $248,000 for the period ended December 31, 2005.

Interest expense on CMBS-private placement was $83,000 for the year ended December 31, 2006 due to the purchase and financing of two assets in December 2006. There was no interest expense for the period ended December 31, 2005.

Interest expense on our equipment leasing portfolio was $3.7 million for the year ended December 31, 2006 resulting from the financing of direct financing leases and notes acquired beginning in September 2005 with our secured term credit facility. There was no interest expense for the period ended December 31, 2005 because the term credit facility did not exist until March 2006. At December 31, 2006, we had an outstanding balance of $84.7 million with an interest rate of 6.33%.

General interest expense was $2.5 million for the year ended December 31, 2006 as compared to $564,000 for the period ended December 31, 2005 an increase $1.9 million (337%). This increase resulted primarily from the following:

- An increase of $2.1 million in interest expense on our unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities which were not issued until May 2006 and September 2006, respectively.

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- An increase in interest expense on our credit facility of $320,000 which was not entered into until December 2005.

These increases were offset by a $516,000 decrease in interest expense related to interest rate swap agreements. During 2006, the floating rate we received exceeded the fixed rate we paid under these agreements generating interest income. This interest income is classified as “Interest income – other” on our Consolidated Statement of Income.

Non-Investment Expenses

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

	Years Ended December 31, 2007	Years Ended December 31, 2006	Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
Non-investment expenses:			
Management fees - related party	$ 6,554	$ 4,838	$ 3,012
Equity compensation – related party	1,565	2,432	2,709
Professional services	2,911	1,881	580
Insurance	466	498	395
General and administrative	1,581	1,428	1,032
Income tax expense	338	67	–
Total non-investment expenses	$ 13,415	$ 11,144	$ 7,728

Year Ended December 31, 2007 as compared to the Year Ended December 31, 2006

Management fees – related party increased $1.8 million (35%) to $6.6 million for the year ended December 31, 2007 as compared to $4.8 million for the year ended December 31, 2006. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement. The base management fees increased by $1.4 million (37%) to $5.1 million for the year ended December 31, 2007 as compared to $3.7 million for the year ended December 31, 2006. This increase was due to increased equity as a result of our public offerings in February and December 2006 and the January 2007 exercise of the over-allotment option that was part of the December 2006 follow-on offering. Equity is a principal component of the management fee calculation. See Item 1, “Business-Management Agreement.” Incentive management fees increased by $355,000 (32%) to $1.5 million for the year ended December 31, 2007 from $1.1 million for the year ended December 31, 2006. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter. During the first two quarters of 2006 and 2007, adjusted net income increased $8.9 million causing a $1.1 million increase in incentive management fees. No incentive management fee was paid for the quarters ended December 31, 2007, September 30, 2007 or September 30, 2006 because adjusted net income thresholds, as defined in the management agreement (see Note 12) were not met.

Equity compensation – related party decreased $867,000 (36%) to $1.6 million for the year ended December 31, 2007 as compared to $2.4 million for the year ended December 31, 2006. These expenses relate to the amortization of the March 8, 2005 grant of restricted common stock to the Manager, the March 8, 2005, 2006 and 2007 grants of restricted common stock to our non-employee independent directors, the March 8, 2005 grant of options to the

Manager to purchase common stock, the January 5, 2007 grant of restricted stock to several employees of Resource America, Inc., or Resource America, who provide investment management services to us through our Manager, a June 27, 2007 grant of performance shares to two employees of Resource America and several grants of restricted common stock to various employees of our Manager in October and December 2007. The decrease in expense was primarily the result of the vesting of two thirds of the stock and options related to the March 8, 2005 grants of restricted stock and options to the Manager on March 8, 2006 and March 8, 2007 as well as an adjustment related to our quarterly remeasurement of unvested stock and options granted to the Manager to reflect changes in the fair value of our common stock. This was offset by expense related to the January 5, 2007, June 27, 2007 and the October and December 2007 grants.

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Professional services increased $1.0 million (55%) to $2.9 million for the year ended December 31, 2007 as compared to $1.9 million for the year ended December 31, 2006 due to the following:

- Increase of $391,000 in audit and tax fees for the year ended December 31, 2007 due to the timing of when the services were performed and billed.

- Increase of $151,000 in LEAF servicing expense for the year ended December 31, 2007 due to the increase in managed assets in the year ended December 31, 2007.

- Increase of $135,000 in fees associated with our Sarbanes-Oxley compliance for the year ended December 31, 2007.

- Increase of $170,000 in trustee fees with respect to our CDOs and increases of $71,000 in agreed-upon procedures fees to independent audit firms for the year ended December 31, 2007 due to two CDO vehicles closing subsequent to December 31, 2006. There were no such fees for the year ended December 31, 2006.

- Increase of $117,000 in legal fees due to our having been subject to a full year of reporting obligations under the Securities Exchange Act of 1934.

General and administrative expenses increased $151,000 (11%) to $1.6 million for the year ended December 31, 2007 as compared to $1.4 million for the year ended December 31, 2006. These expenses include expense reimbursements to our Manager, rating agency expenses and all other operating costs incurred. The increase is due to the following:

- Increase of $203,000 in rating agency and other fees with respect to our CDOs for the year ended December 31, 2007 due to two CDO vehicles closing subsequent to December 31, 2006. There were no such fees for the year ended December 31, 2006.

- Increase of $172,000 in director's fees for the year ended December 31, 2007 due to the new fees paid to members of the investment committee who approve all investments in commercial real estate mortgages.

- Increase of $66,000 in bad debt expense for the year ended December 31, 2007 related to several assets in our bank loan portfolio. There was no such expense for the year ended December 31, 2006.

- Increase of $126,000 in other general and administrative expenses including bank fees related to cost of servicing our commercial real estate portfolio, printing fees for our first proxy filing, dues and subscriptions, and travel due to our growing portfolio for the year ended December 31, 2007.

These were offset by a decrease in reimbursed expenses to our Manager of $447, 000 for the year ended December 31, 2007 due to a determination by our Manager not to seek reimbursement of a portion of general office expenses for which reimbursement is permitted under our management agreement.

Income tax expense increased $271,000 (404%) to $338,000 for the year ended December 31, 2007 as compared to $67,000 for the year ended December 31, 2006 due to an increase in taxable income related to Resource TRS, our domestic taxable REIT subsidiary. Resource TRS had no taxable income for the period from January 1, 2006 through December 15, 2006.

Year Ended December 31, 2006 as compared to the Period Ended December 31, 2005

Since we commenced operations on March 8, 2005, results for the period ended December 31, 2005 reflect less than ten months of activity as compared with the full year ended December 31, 2006.

Management fees – related party increased $1.8 million (60%) to $4.8 million for the year ended December 31, 2006 as compared to $3.0 million for the period ended December 31, 2005. Base management fees increased by $1.0 million (37%) to $3.7 million for the year ended December 31, 2006 as compared to $2.7 million for the period ended December 31, 2005. This increase was due to increased equity as a result of our public offerings in February and December 2006. Incentive management fees increased by $756,000 (220%) to $1.1 million from $344,000, primarily due to the incentive management fee only being paid for one quarter during the period ended December 31, 2005 as compared to being paid for three quarters during the year ended December 31, 2006.

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Equity compensation – related party decreased $300,000 (11%) to $2.4 million for the year ended December 31, 2006 as compared to $2.7 million for the period ended December 31, 2005. These expenses relate to the amortization of the March 8, 2005 grant of restricted common stock to the Manager, the March 8, 2005 and 2006 grants of restricted common stock to our non-employee independent directors and the March 8, 2005 grant of options to the Manager to purchase common stock. The decreases in expense were primarily the result of an adjustment related to our quarterly remeasurement of unvested stock and options to the Manager to reflect changes in the fair value of our common stock.

Professional services expense increased $1.3 million (224%) to $1.9 million for the year ended December 31, 2006 as compared to $580,000 for the period ended December 31, 2005. This increase was primarily due to an $308,000 increase in consultant and tax fees associated with the closing of Apidos CDO III and an increase of $162,000 in legal fees in connection with our general corporate operations and compliance. There was also a $214,000 increase in administrative fees in connection with the closing of Apidos CDO III and RREF 2006-1. In addition, there was an increase of $595,000 in LEAF servicing expense due to the increase in managed assets in the year ended December 31, 2006.

Insurance expense increased $103,000 (26%) to $498,000 for the year ended December 31, 2006 as compared to $395,000 for the period ended December 31, 2005. These amounts represent expense related to our purchase of directors' and officers' insurance. The increase for the year ended December 31, 2006 was due to the fact that the period ended December 31, 2005 did not contain a full year of operations, but rather covered the period from our initial date of operations, March 8, 2005, through December 31, 2005, as compared to the full year ended December 31, 2006.

General and administrative expenses increased $396,000 (38%) to $1.4 million for the year ended December 31, 2006 as compared to $1.0 million for the period ended December 31, 2005. These expenses include expense reimbursements to our Manager, rating agency expenses and all other operating costs incurred. These increases were primarily the result of the addition of rating agency fees associated with our four CDOs, two of which closed subsequent to December 31, 2005, as well as to an increase in general operating expenses, primarily from bank fees and printing expenses.

Other (Expenses) Revenues

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

	Years Ended December 31, 2007	Years Ended December 31, 2006	Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
Other (expenses) revenues			
Net realized (loss) gain on investments	$ (15,098)	$ (8,627)	$ 311
Gain on deconsolidation of VIE	14,259	–	–
Provision for loan and lease losses	(6,211)	–	–
Asset impairments	(26,277)	–	–
Other income	201	154	–
Total (expenses) revenues	$ (33,126)	$ (8,473)	$ 311

Year Ended December 31, 2007 as compared to Year Ended December 31, 2006

Net realized losses on investments increased $6.5 million (75%) to a loss of $15.1 million for the year ended December 31, 2007 from a loss of $8.6 million for the year ended December 31, 2006. Realized losses during the year ended December 31, 2007 consisted primarily of a $15.6 million realized gross loss on deconsolidation of Ischus CDO II. Realized losses during the year ended December 31, 2006 primarily consisted of $12.2 million of gross losses related to the sale of our agency ABS-RMBS portfolio, offset by a $2.6 million gain on termination of our amortizing swap agreement in connection with the sale of our agency ABS-RMBS portfolio in September 2006.

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Gain on deconsolidation of VIE of $14.3 million is due to the partial sale of equity in Ischus CDO II, which was determined to be a reconsideration event under FIN 46-R and resulted in the deconsolidation of Ischus CDO II in November 2007. Ischus CDO II had previously been a consolidated entity (see "Overview").

Our provision for loan and lease losses was $6.2 million for the year ended December 31, 2007. It consisted of a $2.8 million provision for loan loss on our bank loan portfolio, a $3.2 million provision on our commercial real estate portfolio and a $293,000 provision for lease loss on our direct financing leases and notes. There were no such provisions for the year ended December 31, 2006. The increase in the provision for loan and lease losses was due to payment defaults on two bank loans and three leases and declining credit market conditions in the second half of 2007.

Asset impairments of $26.3 million consisted entirely of other-than-temporary impairment on assets in our ABS-RMBS portfolio held by Ischus CDO II. During the second and third quarters of 2007 we experienced illiquidity in the sub-prime market and deteriorating delinquency characteristics of the mortgages underlying Ischus CDO II's investments. These trends together with significant rating agency actions supported the need to further reevaluate the level of asset impairments in Ischus CDO II's ABS-RMBS portfolio. The asset impairments recorded reflect these declining market conditions. There was no such impairment for the year ended December 31, 2006. These impairments were partially recaptured as part of our gain on the deconsolidation of Ischus CDO II (see "Overview").

Other income increased $47,000 (31%) to $201,000 for the year ended December 31, 2007 from $154,000 for the year ended December 31, 2006, primarily due to an increase of $83,000 in dividend income related to the common shares held in two unconsolidated trusts that issued trust preferred securities for our benefit. See " – Financial Condition – Trust Preferred Securities," below. The trust had a full year of operations in 2007 compared to a partial year in 2006. These increases were offset by a decrease in consulting fee income of approximately $35,000.

Year Ended December 31, 2006 as compared to the Period Ended December 31, 2005

Net realized losses on investments for the year ended December 31, 2006 of $8.6 million consisted of $12.2 million of gross losses related to the sale of our agency ABS-RMBS portfolio, offset by a $2.6 million gain on termination of our amortizing swap agreement in connection with the sale of our agency ABS-RMBS portfolio in September 2006, $279,000 of net realized gains on the sale of bank loans and $807,000 of gains related to the early termination of equipment leases. Net realized gains on investments for the period ended December 31, 2005 of $311,000 primarily consisted of $307,000 of gains related to the sale of bank loans.

Other income for the year ended December 31, 2006 of $164,000 consisted of $90,000 of consulting fee income and $63,000 of dividend income. There was no such income for the period ended December 31, 2005.

Income Taxes

We do not pay federal income tax on income we distribute to our stockholders, subject to our compliance with REIT qualification requirements. However, Resource TRS, our domestic TRS, is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code. For the years ended December 31, 2007 and 2006, Resource TRS recorded a $338,000 and $67,000 provision for income taxes, respectively. As of December 31, 2005, we did not conduct any of our operations through Resource TRS.

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Financial Condition

Summary

Our total assets at December 31, 2007 were $2.1 billion as compared to $1.8 billion at December 31, 2006. The increase in total assets was principally due to the acquisition of assets for two CDOs that closed during the year ended December 31, 2007. The additional CDOs also led to an increase in our restricted cash. This increase in assets was partially offset by the deconsolidation of Ischus CDO II during November 2007. As a result of the closing of two CDOs, borrowings also increased. The increase in borrowings was also partially offset by the deconsolidation of Ischus CDO II in November 2007.

Investment Portfolio

The following tables summarize the amortized cost and estimated fair value of our investment portfolio as of December 31, 2007 and 2006, 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 estimated fair value of our investment portfolio and the related dollar price, which is computed by dividing the estimated fair value by par amount (in thousands, except percentages):

	Amortized cost	Dollar price	Estimated fair value	Dollar price	Estimated fair value less amortized cost	Dollar price
December 31, 2007						
Floating rate						
CMBS-private placement	$ 54,132	93.40%	$ 41,524	71.65%	$ (12,608)	-21.75%
Other ABS	5,665	94.42%	900	15.00%	(4,765)	-79.42%
B notes (1)	33,570	100.10%	33,486	99.85%	(84)	-0.25%
Mezzanine loans (1)	141,894	100.09%	141,539	99.83%	(355)	-0.26%
Whole loans (1)	430,776	99.35%	429,699	99.10%	(1,077)	-0.25%
Bank loans (2)	931,101	100.00%	874,736	93.95%	(56,365)	-6.05%
Total floating rate	$ 1,597,138	99.58%	$ 1,521,884	94.88%	$ (75.254)	-4.69%
Fixed rate						
CMBS – private placement	$ 28,241	98.95%	$ 23,040	80.73%	$ (5,201)	-18.22%
B notes (1)	56,007	100.17%	55,867	99.92%	(140)	-0.25%
Mezzanine loans (1)	81,268	94.69%	80,016	93.23%	(1,252)	-1.46%
Whole loans (1)	97,942	99.24%	97,697	98.99%	(245)	-0.25%
Equipment leases and notes (3)	95,323	100.00%	95,030	99.69%	(293)	-0.31%
	$ 358,781	98.49%	$ 351,650	96.53%	$ (7,131)	-1.96%

Total fixed rate						
Grand total	$	1.955,919	99.37%	$ 1,873,534	95.19%	$ (82,385)	-4.18%

(1) Estimated fair value of B notes, mezzanine loans and whole loans includes a provision for loan losses of $3.2 million at December 31, 2007.

(2) Estimated fair value includes a $2.7 million provision for loan losses at December 31, 2007.

(3) Estimated fair value includes a $293,000 provision for lease losses at December 31, 2007.

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	Amortized cost	Dollar price	Estimated fair value	Dollar price	Estimated fair value less amortized cost	Dollar price
December 31, 2006						
Floating rate						
ABS-RMBS	$ 342,496	99.22%	$ 336,968	97.62%	$ (5,528)	-1.60%
CMBS	401	100.00%	406	101.25%	5	1.25%
CMBS-private placement	30,055	100.00%	30,055	100.00%	–	0.00%
Other ABS	17,539	99.87%	17,669	100.61%	130	0.74%
A notes	42,515	100.04%	42,515	100.04%	–	0.00%
B notes	147,196	100.03%	147,196	100.03%	–	0.00%
Mezzanine loans	105,288	100.07%	105,288	100.07%	–	0.00%
Whole loans	190,768	99.06%	190,768	99.06%	–	0.00%
Bank loans	613,981	100.15%	613,540	100.08%	(441)	-0.07%
Total floating rate	$ 1,490,239	99.77%	$ 1,484,405	99.38%	$ (5,834)	-0.39%
Fixed rate						
ABS-RMBS	$ 6,000	100.00%	$ 5,880	98.00%	$ (120)	-2.00%
CMBS	27,550	98.77%	27,031	96.91%	(519)	-1.86%
Other ABS	2,987	99.97%	2,988	100.00%	1	0.03%
B notes	56,390	100.22%	56,390	100.22%	–	0.00%
Mezzanine loans	83,901	94.06%	83,901	94.06%	–	0.00%
Bank loans	249	100.00%	249	100.00%	–	0.00%
Equipment leases and notes	88,970	100.00%	88,970	100.00%	–	0.00%
Total fixed rate	$ 266,047	97.97%	$ 265,409	97.73%	$ (638)	-0.24%
Grand total	$ 1,756,286	99.49%	$ 1,749,814	99.12%	$ (6,472)	-0.37%

We had no ABS-RMBS portfolio as of December 31, 2007. The following table summarizes our ABS-RMBS portfolio classified as available-for-sale as of December 31, 2006 which are carried at fair value (in thousands, except percentages):

	December 31, 2006
ABS-RMBS, gross	$ 351,194
Unamortized discount	(2,823)
Unamortized premium	125
Amortized cost	348,496
Gross unrealized gains	913
Gross unrealized losses	(6,561)
Estimated fair value	$ 342,848
Percent of total	100.0%

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The following table summarizes by ratings category our ABS-RMBS portfolio as of December 31, 2006 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2006	
	Amortized cost	Dollar price
Moody's ratings category:		
A1 through A3	$ 42,163	100.18%
Baa1 through Baa3	279,641	99.88%
Ba1 through Ba3	26,692	91.68%
Total	$ 348,496	99.23%
S&P ratings category:		
A+ through A-	$ 58,749	99.65%
BBB+ through BBB-	266,555	99.14%
BB+ through BB-	2,192	92.68%
No rating provided	21,000	100.00%
Total	$ 348,496	99.23%
Weighted average rating factor	412	
Weighted average original FICO (1)	636	
Weighted average original LTV (1)	80.58%	

(1) Weighted average reflects 100.0% at December 31, 2006 of the RMBS in our portfolio.

Commercial Mortgage-Backed Securities

We held no CMBS in this category as of December 31, 2007. At December 31, 2006, we held $27.4 million of CMBS at fair value, which is based on market prices provided by dealers, net of unrealized gains of $23,000 and unrealized losses of $536,000. In the aggregate, we purchased our CMBS portfolio at a discount. As of December 31, 2006, the remaining discount (net of premium) to be accreted into income over the remaining lives of the securities was $343,000. These securities are classified as available-for-sale and, as a result, are carried at their fair market value.

The following table describes the terms of our CMBS as of December 31, 2007 and 2006 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2006	
	Amortized cost	Dollar price
Moody's ratings category:		
Baa1 through Baa3	$ 27,951	98.79%
Total	$ 27,951	98.79%
S&P ratings category:		
BBB+ through BBB-	$ 12,183	99.10%
No rating provided	15,768	98.55%

Total	$	27,951	98.79%
Weighted average rating factor (1)		346	

(1) Weighted average rating factor is the quantitative equivalent of Moody's traditional rating categories and used by Moody's in its credit enhancement calculation for securitization transactions.

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Commercial Mortgage-Backed Securities-Private Placement

At December 31, 2007 and 2006, we held $64.6 million and $30.1 million, respectively of CMBS-private placement at fair value which is based on market prices provided by dealers, net of unrealized losses of $17.8 million at December 31, 2007. There were no gains or losses at December 31, 2006. In the aggregate, we purchased our CMBS-private placement portfolio at a discount. At December 31, 2007, the remaining discount to be accreted into income over the remaining lives of the securities was $4.1 million and no discount existed as of December 31, 2006 since those existing securities were purchased at par. These securities are classified as available-for-sale and, as a result, are carried at their fair value. We did not hold any CMBS-private placement at December 31, 2005.

The following table summarizes our CMBS-private placement as of December 31, 2007 and 2006 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2007		December 31, 2006	
	Amortized Cost	Dollar Price	Amortized Cost	Dollar Price
Moody's Ratings Category:				
Aaa	$ 10,000	100.00%	$ 30,055	100.00%
Baa1 through Baa3	65,377	94.07%	–	N/A
Ba1 through Ba3	6,996	99.94%	–	N/A
Total	$ 82,373	95.23%	$ 30,055	100.00%
S&P Ratings Category:				
AAA	$ 10,000	100.00%	$ 30,055	100.00%
BBB+ through BBB-	72,373	94.61%	–	N/A
Total	$ 82,373	95.23%	$ 30,055	100.00%
Weighted average rating factor	497		1	

Other Asset-Backed Securities

At December 31, 2007 and 2006, we held $900,000 and $20.7 million, respectively, of other ABS at fair value, which is based on market prices provided by dealers, net of unrealized gains of $0 and $130,000, respectively, and losses of $4.8 million and $0, respectively. In the aggregate, we purchased our other ABS portfolio at a discount. As of December 31, 2007 and 2006, the remaining discount to be accreted into income over the remaining lives of securities was $335,000 and $22,000, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair market value.

The following table summarizes our other ABS as of December 31, 2007 and 2006 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2007		December 31, 2006	
	Amortized cost	Dollar price	Amortized cost	Dollar price
Moody's ratings category:				
Baa1 through Baa3	$ 5,665	94.42%	$ 20,526	99.89%
Total	$ 5,665	94.42%	$ 20,526	99.89%

S&P ratings category:						
BBB+ through BBB-	$	5,665	94.42%	$	18,765	99.08%
No rating provided		–	N/A		1,761	100.00%
Total	$	5,665	94.42%	$	20,526	99.89%
Weighted average rating factor		610			396	

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Commercial 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
December 31, 2007:					
Whole loans, floating rate	28	$	430,776	LIBOR plus 1.50% to LIBOR plus 4.25%	May 2008 to July 2010
Whole loans, fixed rate	7		97,942	6.98% to 8.57%	May 2009 to August 2012
B notes, floating rate	3		33,570	LIBOR plus 2.50% to LIBOR plus 3.01%	March 2008 to October 2008
B notes, fixed rate	3		56,007	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	11		141,894	LIBOR plus 2.15% to LIBOR plus 3.45%	February 2008 to May 2009
Mezzanine loans, fixed rate	7		81,268	5.78% to 11.00%	October 2009 to September 2016
Total (1)	59	$	841,457		
December 31, 2006:					
Whole loans, floating rate	9	$	190,768	LIBOR plus 2.50% to LIBOR plus 3.65%	August 2007 to January 2010
A notes, floating rate	2		42,515	LIBOR plus 1.25% to LIBOR plus 1.35%	January 2008 to April 2008
B notes, floating rate	10		147,196	LIBOR plus 1.90% to LIBOR plus 6.25%	April 2007 to October 2008
B notes, fixed rate	3		56,390	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	7		105,288	LIBOR plus 2.20% to LIBOR plus 4.50%	August 2007 to October 2008
Mezzanine loans, fixed rate	8		83,901	5.78% to 11.00%	August 2007 to September 2016
Total	39	$	626,058		

(1) The total does not include a provision for loan losses of $3.2 million recorded as of December 31, 2007.

We have one Mezzanine Loan, with a book value of $11.7 million, net of a reserve of $1.1 million, that is secured by 100% of the equity interests in two shopping centers. We had been informed in writing that the Borrower would be making the February 2008 payment directly to us on March 17, 2008 and that funds sufficient to make the March 2008 payment were on deposit with the special servicer of the senior loan secured by the properties. However, on March 17, 2008, the borrower informed us that it would not make the February 2008 payment directly to us, but would direct such payment to the special servicer. The special servicer has informed us that it will hold the February 2008 and March 2008 payments in a curtailment account until the borrower provides certain financial information. We continue to work closely with the borrower and special servicer.

Bank Loans

At December 31, 2007, we held a total of $874.7 million of bank loans at fair value, all of which are held by and secure the debt issued by Apidos CDO I, Apidos CDO III and Apidos Cinco CDO. This is an increase of $263.5 million over our holdings at December 31, 2006. The increase in total bank loans was principally due to the accumulation of bank loans for Apidos Cinco CDO. We own 100% of the equity issued by Apidos CDO I, Apidos CDO III and Apidos Cinco CDO which we have determined are VIEs and are, therefore, deemed to be their primary beneficiaries. See “-Variable Interest Entities.” As a result, we consolidated Apidos CDO I, Apidos CDO III and Apidos Cinco CDO as of December 31, 2007.

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The following table summarizes our bank loan investments as of December 31, 2007 and 2006 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2007		December 31, 2006	
	Amortized cost	Dollar price	Amortized cost	Dollar price
Moody's ratings category:				
Baa1 through Baa3	$ 5,914	98.65%	$ 3,500	100.00%
Ba1 through Ba3	500,417	100.02%	218,941	100.09%
B1 through B3	386,589	100.01%	385,560	100.15%
Caa1 through Caa3	20,380	100.20%	3,722	100.00%
Ca	1,000	100.00%	–	–%
No rating provided	16,800	99.44%	2,507	100.28%
Total	$ 931,100	100.00%	$ 614,230	100.13%
S&P ratings category:				
BBB+ through BBB-	$ 14,819	100.15%	$ 8,490	100.00%
BB+ through BB-	433,624	100.00%	241,012	100.13%
B+ through B-	405,780	100.06%	350,262	100.13%
CCC+ through CCC-	4,207	100.00%	10,193	100.05%
No rating provided	72,670	99.59%	4,273	100.16%
Total	$ 931,100	100.00%	$ 614,230	100.13%
Weighted average rating factor	2,000		2,131	

Equipment Leases and Notes

Investments in direct financing leases and notes as of December 31, 2007 and 2006, were as follows (in thousands):

	December 31,	
	2007	2006
Direct financing leases	$ 28,880	$ 30,270
Notes receivable	66,150	58,700
Total	$ 95,030(1)	$ 88,970

(1) Includes a $293,000 provision for lease losses.

Private Equity Investments

In February 2006, we sold our private equity investment for $2.0 million.

Interest Receivable

At December 31, 2007, we had interest receivable of $12.0 million, which consisted of $11.7 million of interest on our securities, loans and equipment leases and notes and $228,000 of interest earned on escrow and sweep accounts. At December 31, 2006, we had interest receivable of $8.8 million, which consisted of $8.7 million of interest on our securities, loans and equipment leases and notes, $8,000 of purchased interest that had been accrued on commercial real estate loans purchased and $73,000 of interest earned on brokerage and sweep accounts.

Principal Paydown Receivables

At December 31, 2007 and 2006, we had principal paydown receivables of $836,000 and $503,000, respectively, which consisted of principal payments on our bank loans.

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Other Assets

Other assets at December 31, 2007 of $4.9 million consisted primarily of $3.4 million of loan origination costs associated with our trust preferred securities issuances, revolving credit facility, commercial real estate loan portfolio and secured term facility, $85,000 of prepaid directors' and officers' liability insurance, $412,000 of prepaid expenses, $998,000 of lease payment receivables and $37,000 of other receivables. Other assets at December 31, 2006 of $3.1 million consisted primarily of $2.9 million of loan origination costs associated with our trust preferred securities issuance, revolving credit facility, commercial real estate loan portfolio and secured term facility and $92,000 of prepaid directors' and officers' liability insurance.

Hedging Instruments

Our hedges at December 31, 2007 and 2006, 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. At December 31, 2006, we also had one interest rate cap. As of December 31, 2006, we had entered into hedges with a notional amount of $239.9 million and maturities ranging from November 2009 to February 2017. At December 31, 2006, the unrealized loss on our interest rate swap agreements and interest rate cap agreement was $3.2 million. In a decreasing interest rate environment, we expect that the fair value of our hedges will continue to decrease. We intend to continue to seek such hedges for our floating rate debt in the future. Our hedges at December 31, 2007 were as follows (in thousands):

	Benchmark rate	Notional value	Strike rate	Effective date	Maturity date	Fair value
Interest rate swap	1 month LIBOR	$ 53,325	5.53%	07/27/06	05/25/16	$ (3,477)
Interest rate swap	1 month LIBOR	12,750	5.27%	07/25/07	08/06/12	(702)
Interest rate swap	1 month LIBOR	12,965	4.63%	12/04/06	07/01/11	(348)
Interest rate swap	1 month LIBOR	28,000	5.10%	05/24/07	06/05/10	(934)
Interest rate swap	1 month LIBOR	12,675	5.52%	06/12/07	07/05/10	(540)
Interest rate swap	1 month LIBOR	1,880	5.68%	07/13/07	03/12/17	(166)
Interest rate swap	1 month LIBOR	15,235	5.34%	06/08/07	02/25/10	(541)
Interest rate swap	1 month LIBOR	10,435	5.32%	06/08/07	05/25/09	(227)
Interest rate swap	1 month LIBOR	12,150	5.44%	06/08/07	03/25/12	(723)
Interest rate swap	1 month LIBOR	7,000	5.34%	06/08/07	02/25/10	(249)
Interest rate swap	1 month LIBOR	83,080	5.58%	06/08/07	04/25/17	(6,948)
Interest rate swap	1 month LIBOR	1,726	5.65%	06/28/07	07/15/17	(149)
Interest rate swap	1 month LIBOR	1,681	5.72%	07/09/07	10/01/16	(151)
Interest rate swap		3,850	5.65%	07/19/07	07/15/17	(332)

	1 month LIBOR					
Interest rate swap	1 month LIBOR	4,023	5.41%	08/07/07	07/25/17	(271)
Interest rate swap	1 month LIBOR	22,919	5.32%	03/30/06	09/22/15	(706)
Interest rate swap	1 month LIBOR	10,001	5.31%	03/30/06	11/23/09	(119)
Interest rate swap	1 month LIBOR	6,873	5.41%	05/26/06	08/22/12	(164)
Interest rate swap	1 month LIBOR	4,034	5.43%	05/26/06	04/22/13	(139)
Interest rate swap	1 month LIBOR	3,681	5.72%	06/28/06	06/22/16	