

Resource Capital Corp.  
Form S-11/A  
May 19, 2006

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As filed with the Securities and Exchange Commission on May 19, 2006

Registration No.

333-132836

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

AMENDMENT NO. 2

TO

**FORM S-11**

**FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933  
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES**

**RESOURCE CAPITAL CORP.**

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

**712 Fifth Avenue  
10th Floor  
New York, NY 10019  
(212) 506-3870**

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

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(212) 245-6372 (Facsimile)**

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

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

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If any securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

**The registrant hereby amends this registration statement on such date as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.**

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

**SUBJECT TO COMPLETION, DATED MAY 19, 2006**

**PROSPECTUS**

14,450,800 Shares

**Common Stock**

We are a specialty finance company that invests in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We are externally managed and advised by Resource Capital Manager, Inc., an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI). We commenced operations in March 2005.

This prospectus relates to the resale of up to 14,450,800 shares of our common stock that the selling stockholders named in this prospectus may offer for sale from time to time. The registration of these shares does not necessarily mean the selling stockholders will offer or sell all or any of these shares of common stock. We will not receive any of the proceeds from the sale of any shares of common stock by the selling stockholders, but will incur expenses in connection with the registration of these shares.

The selling stockholders from time to time may offer and resell the shares held by them directly or through agents or broker-dealers on terms to be determined by the time of sale. To the extent required, the names of any agent or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in a prospectus supplement that will accompany this prospectus. A prospectus supplement also may add, update or change information contained in this prospectus.

We intend to qualify and will elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes commencing with our taxable year ended December 31, 2005, and we expect to continue to qualify as a REIT for federal income tax purposes for future taxable years.

Our common stock is listed on the New York Stock Exchange under the symbol "RSO." The last reported sale price on May 18, 2006 was \$13.80 per share.

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

**Investing in our common stock involves risks. See "Risk Factors" beginning on page 22 of this prospectus for a discussion of these risk factors.**

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

The date of this prospectus is \_\_\_\_\_, 2006

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

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## SUMMARY

*This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including the information set forth in Risk Factors, for a more complete understanding of this offering. Except where the context suggests otherwise, the terms we, us and our refer to Resource Capital Corp. and its subsidiaries, Manager refers to Resource Capital Manager, Inc., our external manager and Resource America refers to Resource America, Inc. and its affiliated companies, including the Manager.*

### Our Company

We are a specialty finance company that intends to qualify and will elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes commencing with our taxable year ending December 31, 2005. 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.

Our investments target the following asset classes:

<b>Asset class</b>	<b>Principal investments</b>
Commercial real estate-related assets	<ul style="list-style-type: none"> <li><input type="checkbox"/> Commercial mortgage-backed securities, which we refer to as CMBS</li> <li><input type="checkbox"/> First priority interests in mortgage real estate loans, which we refer to as A notes</li> <li><input type="checkbox"/> Subordinated interests in first mortgage real estate loans, which we refer to as B notes</li> <li><input type="checkbox"/> Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party financing</li> </ul>
Residential real estate-related assets	<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency residential mortgage-backed securities, which we refer to as RMBS, which are guaranteed by federally chartered entities</li> <li><input type="checkbox"/> Non-agency RMBS</li> </ul>
Commercial finance assets	<ul style="list-style-type: none"> <li><input type="checkbox"/> Syndicated bank loans</li> <li><input type="checkbox"/> Other asset-backed securities, which we refer to as ABS, backed principally by small business and syndicated bank loans and, to a lesser extent, by consumer receivables</li> <li><input type="checkbox"/> Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes</li> <li><input type="checkbox"/> Trust preferred securities of financial institutions</li> <li><input type="checkbox"/> Private equity investments, principally issued by financial institutions</li> </ul>

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We use multiple strategies to finance our investment portfolio. In our non-agency RMBS, CMBS, other ABS, syndicated bank loans, equipment leases and notes and trust preferred asset classes, we use warehouse facilities as a short-term financing source before the execution of collateralized debt obligations, which we refer to as CDOs, or other term financing secured by these assets. In our commercial real estate loan portfolio, we use repurchase agreements as a short-term financing source and CDOs and other term financing as a long-term financing source. We finance our agency RMBS portfolio with short-term repurchase arrangements. We seek to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency RMBS and the maturities and repricing dates of the repurchase agreements we use to finance them through derivative instruments, principally floating to fixed interest rate swap agreements.

Our investment portfolio as of March 31, 2006 reflects our investment of the \$214.8 million of net proceeds from our March 2005 private offering and substantially all of the \$27.6 million we raised in our February 2006 initial public offering. We intend to diversify our portfolio over our targeted asset classes during the next 12 months as follows: between 20% and 25% in commercial real estate-related assets, between 25% and 30% in agency RMBS, between 15% and 20% in non-agency RMBS, and between 30% and 35% in commercial finance assets, subject to the availability of appropriate investment opportunities and changes in market conditions. We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. Credit quality refers to the probability that a loan will be repaid in a timely manner. In general, as credit quality decreases, yields increase to compensate for increased default risk. If we are unable to maintain the credit quality of our portfolio, we will be subject to increased default risk, including the risk of payment defaults. If we experience payment defaults, our revenues will be reduced and our costs, particularly costs we incur to enforce our rights with respect to defaulting assets, may increase, thereby reducing our earnings. Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes.

We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. Investing in multiple asset classes does not reduce or eliminate many of the risks associated with our investment portfolio such as geographic concentration risk and credit risk. We may change our investment strategies and policies, and the percentage of assets that may be invested in each asset class, without a vote of our stockholders.

Because we will elect and intend to qualify to be taxed as a REIT and to operate our business so as to be excluded from regulation under the Investment Company Act of 1940, as amended, we are required to invest a substantial majority of our assets in qualifying real estate assets, such as agency RMBS, B notes with unilateral foreclosure rights on the underlying mortgages, mortgage loans and other liens on and interests in real estate. Therefore, the percentage of our assets we may invest in other mortgage-backed securities, or MBS, other B notes, mezzanine debt, other ABS, syndicated bank loans, equipment leases and notes, trust preferred securities, private equity and other types of investments is limited, unless those investments comply with federal income tax requirements for REIT qualification and requirements for exclusion from Investment Company Act regulation.

Our income is generated primarily from the net interest spread, or the difference between the interest income we earn on our investment portfolio and the cost of financing our investment portfolio, which includes the interest expense, fees, and related expenses that we pay on our borrowings and the cost of the interest rate hedges that we use to manage our interest rate risk.



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As of March 31, 2006, our investment portfolio consisted of the following (dollars in thousands):

	<b>Amortized Cost</b>	<b>Estimated fair value</b>	<b>Percent of our total investments<sup>(1)</sup></b>	<b>Weighted average coupon<sup>(1)</sup></b>
<b>Commercial real estate-related assets</b>				
CMBS	\$ 27,964	\$ 27,015	1.37%	5.45%
A notes	20,000	20,000	1.01%	5.97%
B notes	136,262	136,262	6.89%	8.21%
Mezzanine loans	55,925	55,925	2.83%	8.24%
<b>Total commercial real estate-related assets</b>	<b>240,151</b>	<b>239,202</b>	<b>12.10%</b>	<b>7.72%</b>
<b>Residential real estate-related assets</b>				
Agency RMBS	853,536	835,276	42.26%	4.59%
Non-agency RMBS	345,038	344,709	17.44%	6.10%
<b>Total residential real estate-related assets</b>	<b>1,198,574</b>	<b>1,179,985</b>	<b>59.70%</b>	<b>5.03%</b>
<b>Commercial finance assets</b>				
Syndicated bank loans	471,721	474,580	24.01%	6.73%
Other ABS	21,558	21,358	1.08%	6.07%
Equipment leases and notes	61,539	61,539	3.11%	8.76%
<b>Total commercial finance assets</b>	<b>554,818</b>	<b>557,477</b>	<b>28.20%</b>	<b>6.93%</b>
<b>Total</b>	<b>\$ 1,993,543</b>	<b>\$ 1,976,664</b>	<b>100.00%</b>	<b>5.89%</b>

(1) Based on estimated fair value.

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

□ **Commercial real estate-related investments**

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

As of March 31, 2006, we had invested \$27.0 million on a fair value basis, or 1.37% of our total investments, in CMBS. This portfolio had a weighted-average rating factor, or WARF, of 346, or a weighted average rating between Baa1 and Baa2 by Moody's and between BBB+ and BBB by Standard and Poor's. WARF is the quantitative equivalent of Moody's traditional rating categories and is used by Moody's in its credit enhancement calculations for securitization transactions. Our strategy for this class targets a maximum WARF of 610. As of March 31, 2006, the CMBS we had purchased were consistent with our strategic target for this asset class. We expect that this class will decrease to 1% or

less of our total investments in the next 12 months as we diversify our investments.

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

As of March 31, 2006 we held one A note with a fair value of \$20.0 million, or 1.01% of our total investments. The loan had an original weighted average LTV ratio of 45.0%. This investment is consistent with our strategic target for this asset class.

- *Subordinate interests in whole loans (B notes).* We invest in subordinated interests in whole loans, referred to as B notes, either directly originated or purchased from third parties. B notes are secured by a first mortgage and subordinated to the A note. The subordination of a B note is generally evidenced by a co-lender or participation agreement between the holders of the related A note and the B note. B note lenders have the same obligations, collateral and borrower as the A note lenders, but are typically subordinated in recovering upon default. B notes share certain

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credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our B note investments to have loan to value, or LTV, ratios of between 60% and 90%.

As of March 31, 2006, we held eight B note investments with a fair value of \$136.3 million, or 6.89% of our total investments. The loans had an original weighted average LTV ratio of 75.6%. These investments are consistent with our strategic target for this asset class. We expect that this class will increase to between 18% and 20% of our total investments in the next 12 months as we diversify our investments.

- *Mezzanine financing.* We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our mezzanine investments to have LTV ratios of between 70% and 85%.

As of March 31, 2006, we held six mezzanine loans with a fair value of \$55.9 million, or 2.83% of our total investments. The loans had an original weighted average LTV ratio of 82.7%. This investment is consistent with our strategic target for this asset class. We expect that this class will remain between 2% and 5% of our total investments in the next 12 months.

#### □ **Residential real estate-related investments**

- *Agency RMBS.* We invest in adjustable rate and hybrid adjustable rate agency RMBS, which are securities representing interests in mortgage loans secured by residential real property, on which payments of both principal and interest are generally made monthly, net of any fees paid to the issuer, servicer or guarantor of the securities. RMBS differ from traditional fixed income securities with respect to the possibility that principal on the RMBS may be prepaid at any time due to prepayments on the underlying mortgage loans. In agency RMBS, the mortgage loans in the pools are guaranteed as to principal and interest by federally chartered entities such as Government National Mortgage Association, known as Ginnie Mae, the Federal Home Loan Mortgage Corporation, known as Freddie Mac, and the Federal National Mortgage Association, known as Fannie Mae. In general, our agency RMBS will have an implied AAA rating and will consist of mortgage pools in which we have the entire interest.
- *Non-agency RMBS.* We also invest in non-agency RMBS. The principal difference between agency RMBS and non-agency RMBS is that the mortgages underlying the non-agency RMBS do not conform to agency guidelines as a result of documentation deficiencies, high LTV ratios or credit quality issues. In contrast to agency RMBS, non-agency RMBS typically have structural characteristics that mitigate their prepayment and extension risk. We intend for our investments in non-agency RMBS to be primarily adjustable rate securities. We expect that our non-agency RMBS will include loan pools with home equity loans that are secured by subordinate liens, as well as loan pools that are secured by first and second lien residential mortgage loans secured by the related mortgage properties. The underlying residential borrowers can be characterized as "sub-prime" borrowers with lower FICO scores, generally below 625, "mid-prime" borrowers with mid-range scores, generally between 626 and 675, or "prime" borrowers with the highest FICO scores, generally above 675. We expect that most of the non-agency RMBS in

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which we invest will be rated between AAA and Ba2 by Moody's and between AAA and BB by Standard and Poor's, although some of our investments may be rated only by Moody's.

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

As of March 31, 2006, we had invested \$835.3 million on a fair value basis, or 42.26% of our total investments, in agency RMBS, and \$344.7 million on a fair value basis, or 17.44% of our total investments, in non-agency RMBS, with a weighted average original FICO score of 631. Our agency RMBS had an implied AAA rating. Our non-agency RMBS portfolio had a WARF of 408, or a weighted average rating between Baa2 and Baa3 by Moody's and between BBB and BBB- by Standard and Poor's, and an original LTV ratio of 79.01%. As of March 31, 2006, the RMBS we had purchased were consistent with our strategic target for this asset class. We expect that our agency RMBS will decrease to between 25% and 30%, and our non-agency RMBS will remain between 15% and 20%, of our total investments in the next 12 months as we diversify our investments.

#### □ **Commercial finance investments**

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

As of March 31, 2006, we had invested \$474.6 million on a fair value basis, or 24.01% of our total investments, in syndicated bank loans. This portfolio had a WARF of 2,070 or a weighted average rating between Ba3 and B1 by Moody's and between BB- and B+ by Standard & Poor's. As of March 31, 2006, the syndicated loans we had invested in were consistent with our strategic target for this asset class. We expect that this class will increase to between 27% and 30% of our total investments in the next 12 months as we diversify our investments.

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

As of March 31, 2006, we had invested \$21.4 million on a fair value basis, or 1.08% of our total investments, in other ABS. This portfolio had a WARF of 398 or a weighted average rating between Baa2 and Baa3 by Moody's and between BBB and BBB by Standard & Poor's. As of March 31, 2006, the other ABS we had purchased were consistent with our strategic target for this asset class. We expect that this class will decrease to 1.0% or less of our total investments in the next 12 months as we diversify our investments.

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

As of March 31, 2006, we held \$61.5 million on a fair value basis, or 3.11% of our total investments, of equipment leases and notes, net of unearned income. We expect that this class will remain between 1% and 4% of our total investments in the next 12 months.



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

As of March 31, 2006, we had not invested in trust preferred securities. We expect that this class will constitute less than 1% of our total investments in the next 12 months.

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

As of March 31, 2006, we had no private equity investments. We expect that this class will constitute less than 1% of our total investments in the next 12 months.

The table below summarizes our borrowings as of March 31, 2006 (dollars in thousands):

	<u>Repurchase agreements<sup>(1)</sup></u>	<u>CDOs<sup>(2)</sup></u>	<u>Warehouse facility</u>	<u>Unsecured revolving credit facility</u>	<u>Secured term facility</u>	<u>Total</u>
Outstanding borrowings	\$ 917,293	687,686	\$ 132,793	\$	\$ 55,767	\$ 1,793,539
Weighted-average borrowing rate	4.96%	5.13%	4.60%	N/A	6.23%	5.04%
Weighted-average remaining maturity	22 days	23.8 years	39 days	2.8 years	4.1 years	

(1) Includes accrued interest of \$1.5 million.

(2) Amount represents principal outstanding of \$697.5 million less unamortized issuance costs of \$9.8 million.

### Business Strengths

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

*Deep experience in targeted asset classes.* Through the Manager and Resource America, we have access to a team of 64 investment professionals that has broad experience originating, investing in, managing and financing commercial and residential real estate-related assets and commercial finance assets.

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

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

*Significant experience in asset-liability management.* Since 2002, Resource America has sponsored 16 CDOs with approximately \$6.5 billion in assets on a cost basis, including three of our CDOS, Ischus CDO II, Ltd., Apidos CDO

I, Ltd. and Apidos COO III, Ltd., which financed over \$954.4 million of our assets. In addition, the Manager's and Resource America's professionals have significant experience in using hedging instruments to manage the

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interest rate risk associated with the asset classes we invest in, and managed \$804.7 million in notional amount of interest rate swaps and an interest rate cap agreement with a notional amount of \$15.0 million for us as of March 31, 2006.

### Summary Risk Factors

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

- We were recently formed, and have a limited operating history and limited experience operating as a REIT. As a result, investors will not be able to evaluate whether we will be able to execute our investment strategies or operate profitably.
- Our ability to achieve returns for our stockholders depends on our ability both to generate sufficient cash flow to pay distributions and to achieve capital appreciation, and we cannot assure you that we will do either.
- We depend upon the Manager, Resource America and their key personnel because we do not have our own personnel. We may not find suitable replacements if they terminate our management agreement with them or if key personnel are no longer available to us.
- There are potential conflicts of interest in our relationship with the Manager, which could result in decisions that are not in the best interests of our stockholders. Our management agreement was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. In addition, affiliates of the Manager may sponsor or manage other investment vehicles in the future with an investment focus similar to ours, which could result in us competing for access to the benefits that our relationship with the Manager provides to us.
- The Manager is entitled to receive a base management fee which is tied to the amount of our equity and not to the performance of our investment portfolio, which could reduce its incentive to seek profitable opportunities for our portfolio.
- The Manager also is entitled to incentive compensation based on our financial performance, which may lead it to place emphasis on the short-term maximization of net income. This could result in increased risk to the value of our investment portfolio.
- We may not terminate our management agreement without cause until after March 31, 2008. Upon termination without cause after this initial term, or upon a failure to renew the management agreement, we must pay the Manager a substantial termination fee. These and other provisions in our management agreement make termination without cause or non-renewal difficult and costly.
- As of March 31, 2006, 42.3% of our investment portfolio consisted of adjustable-rate agency RMBS. We cannot assure you that we will be successful in achieving a more diversified portfolio that generates comparable or better returns. Even if we are successful in achieving a more diversified portfolio, it is likely that up to 30% of our fully leveraged assets will be adjustable-rate agency RMBS.
- We invest in RMBS backed by sub-prime residential mortgage loans which are subject to higher delinquency, foreclosure and loss rates than mid-prime or prime residential mortgage loans, which could result in losses to us.
- We may change our investment strategy without stockholder consent, which could result in investments that are different, and possibly more risky, than those described in this prospectus.
- Failure to procure adequate capital and funding may decrease our profitability and our ability to pay distributions, reducing the market price of our common stock.
- Subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we intend to invest in mezzanine obligations, A notes, B notes, subordinated tranches





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of CMBS, syndicated bank loans, other ABS, equipment leases and notes, trust preferred securities and private equity investments, all of which are subject to a greater risk of loss than senior obligations and whose value may be sensitive to fluctuations in interest rates.

- We leverage our investments and are not limited in the amount of leverage we may use. As of March 31, 2006, our outstanding indebtedness was \$1.8 billion and our leverage ratio was 7.9 times. Our use of leverage may have the effect of increasing losses when economic conditions are unfavorable, and may reduce cash available for distribution to our stockholders.
- The yields on our investments may be sensitive to changes in prevailing interest rates and changes in prepayment rates. Moreover, we may not be able to execute our match-funding strategy successfully. As a consequence, an increase in our borrowing costs relative to the interest we receive may result in reduced earnings and reduced cash available for distributions to our stockholders.
- Fluctuations in interest rates may reduce the market value of our investments and may result in poorer overall investment performance than if we had not engaged in any hedging transactions.
- Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs typically may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.
- Our hedging transactions may not insulate us from interest rate risk.
- While we use hedging to mitigate some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates and prepayment rates. There are practical limitations to our ability to insulate our portfolio from all of the negative consequences associated with changes in short-term interest rates while still seeking to provide attractive returns on our portfolio.
- The assets in which we invest are subject to the credit risk of the underlying collateral. In the event of default, the amount we may be able to realize from the underlying collateral or additional credit support may be insufficient for us to fully recover our investment.

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- We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future. If we make distributions from uninvested offering proceeds, or borrow to make distributions, our future earnings and cash available for distribution may be reduced from what they otherwise would have been.
- Our charter and bylaws, and the Internal Revenue Code provisions regarding REIT qualification, contain provisions that may inhibit potential acquisition bids that you and other stockholders may consider favorable.
- If we fail to qualify as a REIT and statutory relief provisions are not available, we will be subject to income tax at regular corporate rates, which could reduce the amount of cash available for distribution to our stockholders and reduce the value of our common stock.
- The REIT qualification rules impose limitations on the types of investments and activities which we may undertake, including limitations on our use of hedging transactions and derivatives, and these limitations may, in some cases, preclude us from pursuing the most economically beneficial investment alternatives.
- Dividends paid by REITs generally do not qualify for the reduced tax rates for individuals applicable to qualified dividend income currently in effect for taxable years beginning before December 31, 2008.
- There may not be an active market for our common stock, which may cause our common stock to trade at a discount and make it difficult to sell your common stock. The market price and trading volume of our common stock may be volatile.
- If our CDO issuers that are taxable REIT subsidiaries are subject to federal income tax at the entity level, it would greatly reduce the amounts those entities would have available to distribute to us and to pay their creditors.
- Loss of our exclusion from regulation under the Investment Company Act would require significant changes in our operations and could reduce the market price of our common stock and our ability to make distributions.

### **Business Strategy**

Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives. We expect our agency RMBS to provide us with a stable foundation where our credit risk will be limited and we can manage our interest rate exposure. We expect our other investments to provide enhanced returns and limited interest rate risk. The core components and values of our business strategy are:

*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.

*Investment in higher-yielding assets.* A portion of our portfolio is and will be comprised of assets such as mezzanine loans, A notes, B notes, RMBS and CMBS rated below AAA, and syndicated bank loans, which

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generally have higher yields than more senior obligations or agency RMBS.

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

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

*Active management of interest rate risk and liquidity risk.* We finance a substantial portion of our portfolio investments on a long-term basis through borrowing strategies, such as CDOs, that seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. We also use derivative instruments such as interest rate swaps to hedge the borrowings we use to finance our assets on a short-term basis.

### **External Manager**

We are externally managed and advised by the Manager, an indirect wholly-owned subsidiary of Resource America (NASDAQ: REXI), with whom it shares personnel. We do not have any ownership interest in the Manager. The Manager was formed in January 2005. It does not currently provide management or advisory services to other entities or clients, although our management agreement does not restrict it from doing so, except that it may not advise any new REIT that invests primarily in MBS in the United States. Resource America is a proprietary asset management company in the structured finance, real estate, and equipment leasing sectors, with approximately \$9.5 billion of assets under management in these sectors at March 31, 2006, of which \$6.2 billion were CDO assets on a cost basis. We do not control the assets or personnel of Resource America. Under our management agreement with the Manager and Resource America, the Manager is responsible for providing us with all management and support personnel and services necessary for our day-to-day operations. Neither we nor the Manager expect to have any employees of our own, nor does either of us expect to have any independent officers, although our chief financial officer is exclusively dedicated to our operations. We will, therefore be entirely dependent upon the Manager and Resource America for personnel and administrative infrastructure. To provide its services, the Manager draws upon the expertise and experience of Resource America which, as of March 31, 2006, had 194 employees involved in asset management, including 64 asset management professionals and 130 asset management support personnel. Resource America conducts its activities through the following subsidiaries:

- Ischus Capital Management, LLC invests in, finances, structures and manages RMBS, CMBS and other ABS. As of March 31, 2006, Ischus had a team of seven asset management professionals and three asset management support personnel managing over \$4.0 billion of MBS and other ABS on a cost basis, of which over \$1.2 billion was managed on our behalf, including \$394.6 million of assets on a cost basis that were financed through Ischus CDO II, which closed July 27, 2005 and in which we own 100% of the equity. These equity interests are subordinate in right of payment to all other securities issued by the CDO.
- Resource Real Estate, Inc. originates, finances and manages investments in real estate and real estate loans. As of March 31, 2006, Resource Real Estate had a team of 19 asset management professionals and seven asset management support personnel managing over \$638.2 million of commercial and multi-family real estate assets, of which \$212.2 million were managed on our behalf.
- Apidos Capital Management, LLC invests in, finances and manages syndicated bank loans. As of March 31, 2006, Apidos had a team of nine asset management professionals and one asset management support employee who managed approximately \$828.8 million of syndicated bank loans on a cost basis, of which \$471.7 million were managed on our behalf, including \$338.9 million of syndicated bank loans on a cost basis that were financed through Apidos CDO I, which closed August

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4, 2005 and \$132.8 million of syndicated bank loans on a cost basis that were financed through Apidos CDO III, which closed May 9, 2006. We own 100% of the equity of each of these CDOs. The Apidos CDO I and Apidos CDO III equity interests are subordinate in right of payment to all other securities issued by the CDO.

- Trapeza Capital Management, LLC, a joint venture between Resource America and an unaffiliated third party, originates, structures, finances and manages trust preferred securities of banks and other financial institutions. As of March 31, 2006, Trapeza managed or co-managed over \$3.5 billion of trust preferred securities on a cost basis, of which \$3.0 billion were held by nine CDOs. Resource America had three asset management professionals and four asset management support personnel dedicated to Trapeza's operations as of March 31, 2006.
- LEAF Financial Corporation originates, manages and services small- and middle-ticket equipment and note receivable assets. LEAF Financial had 24 asset management professionals and 81 asset management support personnel at March 31, 2006 managing over \$469.7 million in book value of equipment lease assets, of which \$61.5 million was managed on our behalf.

The amount of time asset management and other personnel devote to managing our assets depends on the relative amount of assets managed on our behalf and on behalf of Resource America. As of March 31, 2006, Ischus personnel devoted approximately 31% of their time, Resource Real Estate personnel devoted approximately 33% of their time, Apidos personnel devoted approximately 57% of their time and LEAF Financial personnel devoted approximately 13% of their time to managing our assets. The amount of time our executive officers, other than our chief financial officer, will devote to our operations will depend upon whether we are actively investing capital, when they will devote between approximately 40% and 60% to us, or we are simply managing our portfolio, when they will devote between approximately 20% and 25% to us. Our chief financial officer is exclusively dedicated to our operations.

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

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

- Our management agreement was negotiated between related parties and its terms, including fees payable and the termination provisions, may not be as favorable to us as if it had been negotiated at arm's length with an unaffiliated third party.
- The Manager and Resource America are permitted to invest in, and to manage entities that invest in, asset classes that are the same as or similar to our targeted asset classes, except that they may not raise capital for, sponsor or advise any new publicly-traded REIT that invests primarily in domestic MBS in the United States. In addition, our officers, other than our chief financial officer, and the employees of Resource America who provide services to us are not required to work full time on our affairs and anticipate devoting significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.
- Our management agreement does not prohibit us from entering into any investment opportunity in which the Manager or Resource America has an interest. We currently own 100% of the equity interests in three CDOs structured for us by the Manager and we anticipate that we will invest in the equity portions of future CDOs structured for us by the Manager. We may also invest in real estate loans and equipment leases and notes originated and managed by the Manager and Resource America. A conflict

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of interest may arise between us and the Manager and Resource America with respect to the terms upon which we would make such an investment. In the event that any such investment opportunity is made available to us, the transaction will require the approval of a majority of our independent directors.

- We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers and employees, as well as employees of Resource America who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us.
- The compensation we pay to the Manager consists of both a base management fee that is not tied to our performance and an incentive management fee that is based entirely on our performance. The risk of the base management fee component is that it may not provide sufficient incentive to the Manager to seek to achieve attractive returns for us. The risk of the incentive fee component is that it may cause the Manager to place undue emphasis on the maximization of short-term net income at the expense of other criteria, such as preservation of capital, in order to achieve a higher incentive fee. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.
- The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it. Any such shares received would have the benefit of registration rights.
- Termination of the management agreement without cause is difficult and costly.
- The Manager does not assume any responsibility beyond the duties specified in the management agreement and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. The Manager, Resource America, their directors, officers, managers, employees and affiliates will not be liable to us, our directors or our stockholders for, and we have agreed to indemnify them for all claims and damages arising from, acts or omissions performed in good faith in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. As a result, we could experience poor performance or losses for which the Manager would not be liable. The Manager, Resource America and their affiliates have agreed to indemnify us, our directors and officers with respect to all claims and damages arising from acts of the Manager, Resource America or their affiliates constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement or any claims by employees of the Manager, Resource America or their affiliates relating to the terms and conditions of their employment. The Manager and Resource America carry directors' and officers' insurance.

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

The Manager and Resource America must offer us the right to consider all investments they identify that are within the parameters of our investment strategies and policies. For all potential investments other than in equipment leases and notes, if the Manager and Resource America identify an investment that is appropriate both for us and for one or more other investment programs managed by them, but the amount available is less than the amount sought by all of their investment programs, they will allocate the investment among us and such other investment programs in proportion to the relative amounts of the investment sought by each. If the portion of the investment allocable to a particular investment program would be too small for it to be appropriate for that investment program, either because of economic or market inefficiency, regulatory constraints, such as

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REIT qualification or exclusion from regulation under the Investment Company Act, or otherwise, that portion will be reallocated among the other investment programs. Investment programs that do not receive an allocation will have preference in future investments where investment programs are seeking more of the investment than is available so that, on an overall basis, each investment program is treated equitably.

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

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

- which investment program has been seeking investments for the longest period of time;
- whether the investment program has the cash required for the investment;
- whether the amount of debt to be incurred with respect to the investment is acceptable for the investment program;
- the effect the investment will have on the investment program's cash flow;
- whether the investment would further diversify, or unduly concentrate, the investment program's investments in a particular lessee, class or type of equipment, location or industry; and
- whether the term of the investment is within the term of the investment program.

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

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

- We will not be permitted to invest in any investment fund or CDO structured, co-structured or managed by the Manager or Resource America other than those structured, co-structured or managed on our behalf. The Manager and Resource America will not receive duplicate management fees from any such investment fund or CDO to the extent we invest in it.
- We will not be permitted to purchase investments from, or sell investments to, the Manager or Resource America, except that, with certain exceptions, we may purchase investments originated by those entities within 60 days before our investment.

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

### **Our Financing Strategy**

We use leverage to finance our portfolio with the objective of increasing potential returns to our stockholders. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage. We intend to use match funding to mitigate interest rate risk and liquidity risk. Match funding is the financing of our investments on a basis where the maturity and repricing dates of the investments approximates the maturity and repricing dates of the borrowings used to finance the investments. We intend to accumulate investments, other than agency RMBS, in warehouse facilities and, upon our acquisition of the assets in those facilities, match fund them on a long-term basis with CDOs. For example, we borrowed under warehouse facilities to accumulate assets for Ischus CDO II, Apidos CDO I and Apidos CDO III. When these CDOs closed in the third quarter of 2005 and the second quarter of 2006, the accumulated assets were transferred to them and we purchased 100% of their outstanding equity. These equity interests are subordinated in right of payment to all other securities issued by the CDOs.

While we may use other forms of term financing, such as long-term match funded financing provided through bank financing and asset-backed financing programs, we do not expect that they will be a material part of our financing structure. For any period during which our investment portfolio and related borrowings





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are not match funded, we may be exposed to the risk that our investment portfolio will reprice more slowly than the borrowings that we use to finance a significant portion of our investment portfolio. Increases in interest rates under these circumstances may significantly reduce the net interest income that we earn on our investment portfolio. As of March 31, 2006, our outstanding indebtedness was \$1.8 billion and our leverage ratio was 7.9 times.

We finance our agency RMBS through repurchase agreements and use derivatives such as interest rate swaps as a means of mitigating our interest rate risk on forecasted interest expense associated with the repurchase agreements. We also intend to use repurchase agreements as short-term financing for our commercial real estate loan portfolio before term-financing through a CDO. At March 31, 2006, we had outstanding \$917.3 million of repurchase agreements with a weighted average current borrowing rate of 4.96%. We also had borrowings under a warehouse facility for Apidos CDO III of approximately \$132.8 million with a weighted average current interest rate of 4.60%. As of March 31, 2006, Ischus CDO II had \$376.0 million of senior notes outstanding and Apidos CDO I had \$321.5 million outstanding, which were consolidated on our consolidated balance sheets.

### **Management Agreement**

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

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

- The Manager's continued material breach of any provision of the management agreement after 30 days' prior written notice thereof;
- The Manager's fraud, misappropriation of funds or embezzlement against us;
- The Manager's gross negligence in the performance of its duties;
- the bankruptcy or insolvency of the Manager, or the filing of a voluntary bankruptcy petition by the Manager;
- the dissolution of the Manager; and
- a change of control of the Manager if a majority of our independent directors determines, at any point during the 18 months following the change of control, that the change of control was detrimental to the ability of the Manager to perform its duties in substantially the same manner conducted before the change of control.

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

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

Fee	Summary description
<b>Base management fee</b>	Payable monthly in arrears in an amount equal to 1/12 of our equity, as defined in the management agreement, times 1.5%.
<b>Incentive fee</b>	<p>Payable quarterly in an amount equal to the product of:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> 25% of the dollar amount by which                             <ul style="list-style-type: none"> <li><input type="checkbox"/> our net income, determined in accordance with generally accepted accounting principles, or GAAP, before non-cash equity compensation expense and incentive compensation but after the base management fee, for the quarter per common share, based on the weighted average number of common shares outstanding for the quarter,</li> <li><input type="checkbox"/> exceeds an amount equal to                                     <ul style="list-style-type: none"> <li><input type="checkbox"/> the weighted average of \$15.00, the price per share of the common shares in our March 2005 private offering and our February 2006 initial public offering, and the prices per common share in any subsequent offerings by us, in each case at the time of issuance, multiplied by   <ul style="list-style-type: none"> <li><input type="checkbox"/> 2.00% or</li> <li><input type="checkbox"/> 0.50% plus one-fourth of the average 10-year Treasury Rate for such quarter;</li> </ul> </li> </ul> </li> <li><input type="checkbox"/> multiplied by the weighted average number of common shares outstanding during the quarter.</li> </ul> </li> </ul> <p>The calculation of incentive compensation will be adjusted to exclude one-time events pursuant to changes in GAAP as well as non-cash charges after discussion between the Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.</p> <p>The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it, but the Manager has agreed not to make any allocations before the first anniversary of the date of grant.</p>



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***Expense reimbursement***

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

***Termination fee***

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

From March 8, 2005, the date we commenced operations, through March 31, 2006, the Manager had earned base management fees of approximately \$3.5 million, incentive compensation fees of \$458,000, and received expense reimbursements of \$1.1 million.

***Distribution Policy***

To maintain our qualification as a REIT under the Internal Revenue Code, we intend to make regular quarterly distributions to our stockholders of at least 90% of our REIT taxable income, which is determined as of the close of our taxable year. Further, to avoid any REIT level corporate income tax and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net taxable income. In July 2005, our board of directors declared a quarterly distribution of \$3.1 million, or \$0.20 per share of common stock, which was paid on July 29, 2005. We funded the distribution from uninvested proceeds of our March 2005 private offering. We subsequently paid a distribution of \$4.7 million, or \$0.30 per share of our common stock, on October 20, 2005 and a distribution of \$5.6 million, or \$0.36 per share of our common stock, on January 17, 2006. While the \$13.5 million of distributions paid on July 29, 2005, October 20, 2005 and January 17, 2006 were less than our \$13.7 million of REIT taxable income, they exceeded our \$10.9 million of GAAP net income by \$2.8 million. The difference between REIT taxable income and GAAP net income resulted from amortization of non-cash compensation relating to restricted stock and options to purchase common stock granted to the Manager in connection with our March 2005 private offering. On March 16, 2006, our board of directors declared a quarterly distribution of \$5.9 million, or \$0.33 per share of our common stock, payable on April 10, 2006 to stockholders of record on March 27, 2006. Our GAAP net income for the quarter ended March 31, 2006 was \$5.2 million and our estimated REIT taxable income was \$7.2 million.

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



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Up to 20% of the value of a REIT's assets may consist of investments in the securities of one or more TRSs. A domestic TRS, such as Resource TRS, may retain its net income, and its earnings are subject to the 90% distribution requirement for REIT qualification only to the extent that the TRS actually distributes its earnings to the REIT. However, a foreign TRS, such as Apidos CDO I, generally is deemed to distribute its earnings to the REIT on an annual basis for federal income tax purposes, regardless of whether it actually distributes its earnings. The net income of a domestic TRS, such as Resource TRS, is subject to federal income tax at regular corporate rates, whether such income is retained or distributed to the REIT.

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

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

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

We believe that RCC Real Estate, Inc., the subsidiary that as of March 31, 2006 held all of our assets other than our syndicated bank loans and equipment leases and notes 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, an additional 25% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate does not intend to issue redeemable securities.

We consider agency whole pool certificates to be qualifying real estate assets. An agency whole pool certificate is a certificate issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae that represents the entire beneficial interest in the underlying pool of mortgage loans. By contrast, an agency 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 25% test.

We generally do not expect that investments in non-agency RMBS, CMBS, A notes and B notes will constitute qualifying real estate assets for the 55% test, unless we determine that those investments are the "functional equivalent" of owning mortgage loans, which will depend, among other things, on whether we have unilateral foreclosure rights with respect to the underlying real estate collateral. Instead, these investments generally will be classified as real estate-related assets for purposes of the 25% test. We generally consider mezzanine loans to be real estate-related assets for purposes of the 25% test, although we may treat some or all of these assets as qualifying real estate assets for purposes of the 55% test if the SEC or its staff express the view that mezzanine loans do so qualify. We do not expect that investments in CDOs, other ABS, syndicated 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.

We do not expect that our other subsidiaries, RCC Commercial, Inc. and Resource TRS, will qualify for this exclusion. However, we do expect them to qualify for another exclusion under Section 3(c)(7). Accordingly, as required by that exclusion, we will not allow either entity to make, or propose to make, a



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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 no more than 40% of our assets, on an unconsolidated basis, excluding government securities and cash, are [investment securities] as defined in the Investment Company Act. Our interest in RCC Real Estate does not constitute an [investment security] for these purposes, but our interests in RCC Commercial and Resource TRS do constitute [investment securities.] Accordingly, we must monitor the value of our interest in these two subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets. We will monitor the value of our interest in Resource TRS for tax purposes as well; the applicable tax rules require us to ensure that the total value of the stock and other securities of Resource TRS and any other TRS held directly or indirectly by us does not exceed 20% of the value of our total assets. These requirements may limit our flexibility in acquiring assets in the future.

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

#### **Qualification as a REIT**

We intend to be taxed as a REIT commencing with our taxable year ending December 31, 2005. To qualify as a REIT, we must meet various tax law requirements, including, among others, requirements relating to the nature of our assets, the sources of our income, the timing and amount of distributions that we make and the composition of our stockholders. As a REIT, we generally are not subject to federal income tax on our net taxable income that we distribute to our stockholders on a current basis. If we fail to qualify as a REIT in any taxable year and are not eligible for specified relief provisions, we will be subject to federal income tax at regular corporate rates, and we may be precluded from qualifying as a REIT for the four taxable years following the year during which we lost our qualification. Further, even to the extent that we qualify as a REIT, we will be subject to tax at normal corporate rates on net income or capital gains not distributed to our stockholders, and we may be subject to other taxes, including payroll taxes, and state and local income, franchise, property, sales and other taxes. Moreover, our domestic TRSs, including Resource TRS, are subject to federal income taxation and to various other taxes. Any dividends received from us, with limited exceptions, will not be eligible for taxation at the preferred rates applicable to qualified dividend income currently in effect for taxable years beginning before December 31, 2008 that apply to dividends received by individuals, trusts and estates from taxable corporations.



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## **Our Formation and Structure**

We were organized on January 31, 2005 as a Maryland corporation and completed a private offering of our common stock in March 2005 in which we sold 15,333,334 shares of our common stock, resulting in net proceeds to us of \$214.8 million. Credit Suisse Securities (USA) LLC acted as our exclusive initial purchaser and placement agent in this offering. Resource America, the corporate parent of the Manager, and entities affiliated with it purchased 1,000,000 shares of our common stock in the offering. 900,000 of the shares purchased by Resource America are held by Resource Capital Investor, a wholly owned subsidiary of Resource America. The remaining 100,000 shares purchased by Resource America are held by the Manager. Directors, officers and other persons related to us, the Manager and Resource America and their affiliated entities purchased 278,000 shares in that offering. In addition, at the completion of the offering, we granted to the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 per share, of which 344,079 shares of restricted stock were allocated to persons who are directors, officers and employees of the Manager or of Resource America providing services through the Manager.

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

On January 31, 2006, pursuant to the management agreement by and among us, the Manager and Resource America, we paid to the Manager 5,738 common shares. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2005.

On February 6, 2006, we priced and, on February 10, 2006, we completed the initial public offering of our common stock, through which we raised net proceeds (after deducting expenses) of approximately \$27.6 million. In our initial public offering, Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. served as representatives on behalf of themselves and the other underwriters, which included Bear, Stearns & Co. Inc., Piper Jaffray & Co. and Flagstone Securities LLC. Resource America, through its wholly-owned subsidiary, Resource Capital Investor, purchased 900,000 shares of common stock in the initial public offering.

As of May 12, 2006, Resource America, the Manager and their affiliates, including our officers and directors, collectively owned 2,609,462 shares of our common stock, representing 13.0% of our outstanding shares of common stock, and had warrants and options to purchase an additional 814,370 shares of our common stock representing an additional 4.1% of our outstanding shares of common stock, in each case assuming all warrants and options are exercised.

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

## **Registration Rights and Lock-Up Agreements**

*Registration Rights Agreement.* Pursuant to a registration rights agreement between us and Credit Suisse Securities (USA) LLC in our March 2005 private offering, for the benefit of certain holders of our common stock, entered into on March 8, 2005, which we refer to as the registration rights agreement, we were required, among other things, to file with the SEC by March 31, 2006, the resale shelf registration statement of which this prospectus is a part, registering all of the 15,333,334 shares of common stock purchased or placed by Credit Suisse Securities (USA) LLC in our March 2005 private placement (excluding the 1,879,200 shares registered and sold by certain selling stockholders in our February 2006 initial public offering). We are also registering by this registration statement 345,000 shares of restricted stock and 651,666 shares of common stock underlying options issued to the Manager upon completion of our March 2005 private offering. We are required under the registration rights agreement to use our commercially reasonable efforts to cause the resale shelf registration statement of which this prospectus is a part to become effective under the Securities Act as promptly as

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practicable after the filing (and to maintain the resale shelf registration statement continuously effective under the Securities Act for a specified period).

We will be permitted to suspend the use, from time to time, of the registration statement of which this prospectus is a part (and therefore suspend sales under the registration statement) for certain periods, referred to as "blackout periods," if:

- the lead underwriter in any underwritten public offering by us of our common stock advises us that an offer or sale of shares covered by the registration statement would have a material adverse effect on our offering;
- our board of directors determines in good faith that the sale of shares covered by the registration statement would materially impede, delay or interfere with any proposed financing, offer or sale of securities, acquisition, corporate reorganization or other significant transaction involving our company; or

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- our board of directors determines in good faith that it is in our best interests or it is required by law that we supplement the registration statement or file a post-effective amendment to the registration statement in order to ensure that the prospectus included in the registration statement contains the financial information required under Section 10(a)(3) of the Securities Act, discloses any fundamental change in the information included in the prospectus or discloses any material information with respect to the plan of distribution that was not disclosed in the registration statement or any material change to that information, and we provide the stockholders notice of the suspension. The cumulative blackout periods in any 12-month period commencing on the closing of the offering may not exceed an aggregate of 90 days and, furthermore, may not exceed 45 consecutive days, except as a result of a refusal by the SEC to declare any post-effective amendment to the registration statement as effective after we have used all commercially reasonable efforts to cause the post-effective amendment to be declared effective, in which case, we must terminate the blackout period immediately following the effective date of the post-effective amendment.

*Lock-up Agreements.* Subject to certain exceptions, we, our directors and officers, members of our Investment Committee, our Manager, Resource America and their affiliates have agreed to be bound by lock-up agreements that prohibit us and them from selling, pledging, transferring or otherwise disposing of any of our common stock or securities convertible into our common stock for 180 days after February 6, 2006, the date of the prospectus relating to our February 2006 initial public offering. Credit Suisse Securities (USA) LLC may, in its discretion, release all or any portion of the common stock subject to the lock-up agreements with our directors and officers at any time without notice or stockholder approval, in which case our other stockholders would also be released from the restrictions pursuant to the registration rights agreement.

### **Our Corporate Information**

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

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

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- (1) Includes options to purchase 651,666 shares of our common stock, 921 shares of restricted stock granted at the completion of our March 2005 private offering and unallocated and 5,738 shares paid to the Manager as part of its incentive compensation.
  - (2) We formed RCC Real Estate to hold our commercial real estate-related assets and our residential real estate-related assets and RCC Commercial to hold our commercial finance assets. We formed Resource TRS to hold assets, such as equipment leases and notes, non-qualifying hedges and equity interests in CDOs, to the extent necessary to assure our compliance with the gross income and asset tests applicable to REITs.
  - (3) The equity interests we own are subordinate in right of payment to all other securities issued by the CDO. Apidos CDO I is a TRS; we intend to make a TRS election for Apidos CDO III. Ischus CDO II is a qualified REIT subsidiary, or QRS.

[Back to Contents](#)**Summary Consolidated Financial Information**

The following table presents summary historical consolidated financial information as of and for the periods indicated. We derived the information as of March 31, 2006 and for the period March 8, 2005 (date operations commenced) to March 31, 2005 from our unaudited financial statements included elsewhere in this prospectus. We derived the information as of December 31, 2005 and for the period ending December 31, 2005 from our consolidated financial statements, which have been audited by Grant Thornton LLP, an independent registered public accounting firm, whose report is included elsewhere in this prospectus. Since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	<b>As of and for the Three Months ended March 31, 2006</b>	<b>As of and for the period from March 8, 2005 (date operations commenced) to March 31, 2005</b>	<b>As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005</b>
<b>(unaudited)</b>			
<b>(in thousands, except share and per share data)</b>			
<b>Consolidated Income Statement Data:</b>			
Revenues:			
Net interest income:			
Interest income	\$ 29,433	\$ 694	\$ 61,387
Interest expense	21,202	210	43,062
Net interest income	8,231	484	18,325
Other revenue:			
Net realized gain (loss) on investments	(699)	□	311
Expenses:			
Management fee expense-related party	993	208	3,012
Equity compensation expense-related party	582	209	2,709
Professional services	261	22	516
Insurance expense	120	30	395
General and administrative	426	63	1,096
Total expenses	2,382	532	7,728
Net income (loss)	\$ 5,150	\$ (48)	\$ 10,908
Net income (loss) per share □ basic	\$ 0.31	\$ (0.00)	\$ 0.71
Net income (loss) per share □ diluted	\$ 0.31	\$ (0.00)	\$ 0.71
Weighted average number of shares outstanding □ basic	16,617,808	15,333,334	15,333,334

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Weighted average number of shares outstanding □ diluted	16,752,520	15,333,334	15,405,714
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**Consolidated Balance Sheet Data:**

Cash and cash equivalents	\$ 23,671	\$ 112,599	\$ 17,729
Restricted cash	20,040	□	23,592
Available-for-sale securities, pledged as collateral, at fair value	1,185,485	414,564	1,362,392
Available-for-sale securities, at fair value	42,873	86,605	28,285
Loans, net of allowances of \$0, \$0 and \$0	683,908	□	570,230
Total assets	2,038,886	615,973	2,045,547
Repurchase agreements (including accrued interest of \$1,485, \$210 and \$2,104)	917,293	400,963	1,068,277
CDOs	687,686	□	687,407
Warehouse agreements	132,793	□	62,961
Secured term facility	55,767	□	□
Total liabilities	1,811,009	401,491	1,850,214
Total stockholders' equity	227,877	214,482	195,333

**Other Data:**

Dividends declared per common share	\$ 0.33	\$ (0.00)	\$ 0.86
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## RISK FACTORS

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

### Risks Related to Our Business

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

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

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

We have no employees. Our officers, portfolio managers, administrative personnel and support personnel are employees of Resource America. We have no separate facilities and completely rely on the Manager and, because the Manager has no direct employees, Resource America, which have 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, 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.

***Termination of our management agreement is an event of default under the repurchase agreements financing our agency RMBS.***

Under our repurchase agreements with Credit Suisse Securities (USA) LLC and UBS Securities LLC, which has financed our purchase of agency RMBS and had an aggregate amount of outstanding indebtedness of approximately \$549.3 million and \$218.8 million, respectively as of March 31, 2006, it will be an event of default if the Manager ceases to be our manager. Such an event of default would cause a termination event, which would give Credit Suisse Securities (USA) LLC and UBS Securities LLC the option to terminate all repurchase transactions existing with us and make any amount due by us to Credit Suisse Securities (USA) LLC and UBS Securities LLC payable immediately. If the Manager terminates the management agreement and Credit Suisse Securities (USA) LLC and UBS Securities LLC terminates the repurchase agreement with us, we may be unable to find another counterparty for our repurchase agreements and, as a result, may be required to sell a substantial portion or all of our agency RMBS. As a result, we may be unable to execute our business plan and may suffer losses, impairing or eliminating our ability to make distributions to our stockholders. Moreover, a sale of all or a substantial portion of our agency RMBS might result in a loss of our exclusion from regulation under the Investment Company Act.

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

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

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

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

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

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

We have not adopted a policy as to the amounts to be invested in each of our intended investments, including securities rated below investment grade. Subject to maintaining our qualification as a REIT and our exclusion from regulation under the Investment Company Act, we may change our investment strategy, including the percentage of assets that may be invested in each class, or in the case of securities, in a single issuer, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this prospectus. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations, all of which may reduce the market price of our common stock and impair our ability to make distributions to you. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this prospectus.



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

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

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

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

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

***Our investment portfolio is heavily concentrated in agency RMBS and we cannot assure you that we will be successful in achieving a more diversified portfolio.***

As of March 31, 2006, 42.3% of our investment portfolio, based on the fair value of our assets, consisted of agency RMBS. One of our key strategic objectives is to seek to achieve returns over time utilizing a diversified investment strategy. We cannot assure you that we will be successful in diversifying our investment portfolio, and even if we are

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successful in diversifying our investment portfolio it is likely that up to 30% of our fully leveraged assets will be agency RMBS. If we are unable to achieve a more diversified portfolio, we will be particularly exposed to the investment risks that relate to investments in agency RMBS and we may suffer losses if investments in agency RMBS decline in value.

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

We currently leverage our portfolio through repurchase agreements, warehouse facilities, secured term facilities, securitizations, including CDOs, bank credit facilities and other forms of borrowing. We are not limited in the amount of leverage we may use. As of March 31, 2006, our outstanding indebtedness was \$1.8 billion and our leverage ratio was 7.9 times. The amount of leverage we use will vary depending on the availability of credit facilities, our ability to structure and market securitizations, the asset classes we leverage and the cash flows from the assets being financed. Our use of leverage subjects us to risks associated with debt financing, including the risk that

- the cash provided by our operating activities will not be sufficient to meet required payments of principal and interest,
- the cost of financing will increase relative to the income from the assets financed, reducing the income we have available to pay distributions, and
- our investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing we obtain will not be as favorable as the terms of existing financing. If we are unable to secure refinancing on acceptable terms, we may be forced to dispose of some of our assets upon disadvantageous terms or to obtain financing at unfavorable terms, either of which may result in losses to us or reduce the cash flow available to meet our debt service obligations or to pay distributions.

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

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

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

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

A number of entities compete with us to make the types of investments that we seek to make. We will compete with other REITs, public and private investment funds, commercial and investment banks, commercial finance companies and other debt-oriented investors. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Other REITs have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives substantially similar to ours. Some of our competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk

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tolerances or different risk assessments, which could allow them to consider a wider variety of investments or establish more relationships than us. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time or be able to identify and make investments that are consistent with our investment objectives. Competition for desirable investments may result in higher prices, lower yields and a narrower net interest spread, and may delay the investment of our capital as contemplated by this prospectus. If competition has these effects, our earnings and ability to pay distributions could be reduced.

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

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

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

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

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

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

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

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

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

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

In order to be excluded from regulation under the Investment Company Act, we must comply with the requirements of one or more of the exclusions from the definition of investment company. Because we conduct our business through wholly-owned subsidiaries, we must ensure not only that we qualify for an exclusion from regulation under the Investment Company Act, but also that each of our subsidiaries so qualifies. If we fail to qualify for an exclusion, we could be required to restructure our activities or register as an investment company. Either alternative would require significant changes in our operations and could reduce the market price of our common stock. For example, if the market value of our investments in assets other than real estate or real estate-related assets were to increase beyond the levels permitted under the Investment Company Act exclusion, we might have to sell those assets in order to maintain our exclusion. The sale could occur under adverse market conditions. If we were required to register as an investment company, our use of leverage to fund our investment strategies would be significantly limited, which would limit our profitability and ability to make distributions, and we would become subject to substantial regulation concerning management, operations, transactions with affiliated persons, portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

***Rapid changes in the values of our RMBS, CMBS or other 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 RMBS, CMBS or other 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.

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

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

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

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

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

#### **Risks Related to Our Investments**

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

A significant risk associated with our investment in RMBS, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of our assets would decline. Even if the mortgages underlying the RMBS we own are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, those guarantees do not protect against declines in market value of the related RMBS caused by interest rate changes. At the same time, because of the short-term nature of the financing we expect to use to acquire our investments and to hold RMBS, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread. This could result in reduced profitability and distributions.

***We remain subject to losses on our mortgage portfolio despite our strategy of investing in highly-rated RMBS.***

At March 31, 2006, approximately 98% of our RMBS were, and we anticipate that substantially all of our RMBS will be, either agency-backed or rated investment grade by at least one rating agency. While highly-rated RMBS are generally subject to a lower risk of default than lower credit quality RMBS and may benefit from third-party credit enhancements such as insurance or corporate guarantees, there is no assurance that the RMBS will not be subject to credit losses. Furthermore, ratings are subject to change over time as a result of a number of factors, including greater than expected delinquencies, defaults or credit losses, or a deterioration in the financial strength of corporate guarantors, any of which may reduce the market value of such securities. Furthermore, ratings do not take into account the reasonableness of the issue price, interest rate risk, prepayment risk, extension risk or other risks associated with the RMBS. As a result, while we attempt to mitigate our exposure to credit risk in our real estate-related portfolio on a relative basis by focusing on highly-rated RMBS, we cannot completely eliminate credit risk and remain subject to other risks to our investment portfolio that could cause us to suffer losses, which may harm the market price of our common stock.

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

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

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

Subject to maintaining our qualification as a REIT, we will invest in mezzanine debt and expect to invest in mezzanine or other subordinated tranches of CMBS, syndicated 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 RMBS investments because, in the event of default and foreclosure, holders of senior liens will be paid in full before mezzanine investors and, depending on the value of the underlying collateral, there may not be sufficient assets to pay all or any part of amounts owed to mezzanine investors. Moreover, our mezzanine and other subordinate debt investments may have higher loan to value ratios than conventional senior lien financing, resulting in less equity in the collateral and increasing the risk of loss of principal. If a borrower defaults or declares bankruptcy, we may be subject to agreements restricting or eliminating our rights as a creditor, including rights to call a default, foreclose on collateral, accelerate maturity or control decisions made in bankruptcy proceedings. In addition, the prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to economic downturns or individual issuer developments. 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 mortgage loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B note owners after payment to the senior note owners. B notes reflect similar credit risks to comparably rated CMBS. However, since each transaction is privately negotiated, B notes can vary in their structural characteristics and risks. For example, the rights of holders of B notes to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each B note investment we will make. Further, B notes typically are secured by a single property, and so reflect the increased risks associated with a single property compared to a pool of properties. B notes also are less liquid than CMBS, thus we may be unable to dispose of underperforming or non-performing investments. The higher risks associated with our subordinate position in our B note investments could subject us to increased risk of losses.

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

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

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- 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 which may have greater risks of default than senior secured loans.***

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

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

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

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

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

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

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

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

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

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

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

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

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



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

As our repurchase agreements and other short-term borrowings mature, we will be required either to enter into new borrowings or to sell certain of our investments at times when we might otherwise not choose to do so. At March 31, 2006, our repurchase agreements had a weighted average maturity of 22 days, our warehouse facility had a weighted average maturity of 39 days and our secured term facility had a weighted average maturity of 4.1 years. An increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would adversely affect our returns on our assets that are subject to prepayment risk, including our MBS, which might reduce earnings and, in turn, cash available for distribution to our stockholders.

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

As of March 31, 2006 we had outstanding \$917.3 million of repurchase agreements, representing 51% of our total debt. The occurrence of an event of default under our repurchase agreements may cause transactions to be terminated early. Events of default include failure to complete an agreed upon repurchase transaction, failure to comply with margin and margin repayment requirements, the commencement by us of a bankruptcy, insolvency or similar proceeding or filing of a petition against us under bankruptcy, insolvency or similar laws, or admission of an inability to, or intention not to, perform a party's obligation under the agreement. Our repurchase agreement with Credit Suisse Securities (USA) LLC includes provisions that establish termination events if:

- we incur a net asset value decline of 20% on a monthly basis, 30% on a quarterly basis, 40% on an annual basis, or 50% or more from the highest net asset value since the inception of the repurchase agreement;
- we fail to maintain a minimum net asset value of \$100 million; or
- the Manager ceases to be our manager.

The occurrence of an event of default or termination event would give our counterparty the option to terminate all repurchase transactions existing with us and make any amount due by us to the counterparty payable immediately. If we are required to terminate outstanding repurchase transactions and are unable to negotiate more favorable funding terms, our financing costs will increase. This may reduce the amount of capital available for investing and/or may impair our ability to make distributions. In addition, we may have to sell assets at a time when we might not otherwise choose to do so.

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

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

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

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

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

When we engage in a repurchase transaction, we generally sell securities to the transaction counterparty and receive cash from the counterparty. The counterparty must resell the securities back to us at the end of the term of the transaction, which is typically 30-90 days. Because the cash we receive from the counterparty when we initially sell the securities to the counterparty is less than the market value of those securities, typically about 97% of that value, if the counterparty defaults on its obligation to resell the securities back to us we will incur a loss on the transaction. We will also incur a loss if the value of the underlying securities has declined as of the end of the transaction term, as we will have to repurchase the securities for their initial value but would receive securities worth less than that amount. Any losses we incur on our repurchase transactions could reduce our earnings, and thus our cash available for distribution to our stockholders.

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

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

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

- Available interest rate hedges may not correspond directly with the interest rate risk against which we seek protection.
- The duration of the hedge may not match the duration of the related liability.
- Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.
- Losses on a hedge position may reduce the cash available to make distributions to stockholders, and may exceed the amounts invested in the hedge position.
- The amount of income that a REIT may earn from hedging transactions, other than through a TRS, is limited by federal tax provisions governing REITs.
- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction.
- The party owing money in the hedging transaction may default on its obligation to pay.

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

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interest rate risks, the analysis, selection and timing of risk protection strategies, the administration and negotiation of hedge documentation, settlement or disposition of hedges, compliance with hedge accounting requirements and measurement of hedge effectiveness and valuation.

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

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

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

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

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

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

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

***The obligations underlying our RMBS, CMBS, A notes and B notes will be subject to delinquency, foreclosure and loss, which could result in losses to us.***

The RMBS, CMBS, A notes and B notes in which we invest will be secured by underlying mortgage loan obligations. Accordingly, our investments in our portfolio will be subject to all of the risks of the underlying obligations.

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.

Commercial mortgage loans are secured by 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 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,
- changes in governmental rules, regulations and fiscal policies, including environmental legislation, and

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

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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.

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

Subject to maintaining our qualification as a REIT, we invest in syndicated bank loans and other ABS. Our syndicated bank loan investments or our other ABS investments, which are principally backed by small business and bank syndicated loans, may not be secured by mortgages or other liens on assets or may involve higher loan-to-value ratios than our RMBS or CMBS. Our syndicated 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 syndicated bank loan or any ABS backed by such company's loans.

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

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

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

**Risks Related to this Offering**

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

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

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

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

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

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- changes in our earnings estimates or publication of research reports about us or the real estate or specialty finance industry;
- increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community; and
- general market and economic conditions.

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

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities. Upon liquidation, holders of our debt securities and shares of preferred stock, if any, and lenders with respect to other borrowings will receive a distribution of our available assets before we can make any distributions to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or dividend payments that could limit our ability to make distributions to the holders of our common stock. Issuance of substantial amounts of our common stock, including shares of our common stock issued pursuant to our incentive plan, or the perception that these issuances could occur, could depress the price of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings.

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

As of May 17, 2006, we had 17,813,096 shares of common stock outstanding. We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price of our common stock. Sales of substantial numbers of shares of our common stock in the public market, or the perception that such sales might occur, could reduce the market price of our common stock. We distributed warrants to purchase an aggregate of 1,568,244 shares of our common stock on January 13, 2006 as a dividend to our stockholders of record as of January 4, 2006 and have agreed to file a registration statement with respect to the resale of those shares within 180 days following the date when the warrants become exercisable.

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

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

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

Our management agreement provides that we will pay 25% of the Manager's incentive compensation in shares of our common stock. The Manager may, in its sole discretion, elect to receive a greater percentage of its incentive compensation in shares of our common stock. However, the Manager may not accept common stock in payment of its incentive fees if the payment would result in its owning directly or indirectly more than 9.8% of our common stock. The Manager has registration rights with respect to the shares it receives as incentive compensation which, if exercised, would allow it to freely sell the shares. As a result of the close relationship between the Manager and us, sales of our common stock by the Manager, or the perception that such sales could occur, may cause the market price of our shares to decline and such decline could be disproportionate to the number of shares sold.



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***You should not rely on lock-up agreements in connection with the February 2006 initial public offering to limit the amount of common stock sold into the market.***

We have agreed with the underwriters of our February 2006 initial public offering not to offer to sell, contract to sell, or otherwise dispose of, loan, pledge or grant any rights with respect to any shares of our common stock, any options or warrants to purchase any shares of our common stock or any securities convertible into or exercisable for any of our common stock for a period of 180 days from February 6, 2006, subject to certain exceptions. Our directors and officers, members of our investment committee, the Manager and Resource America have agreed, with limited exceptions, for a period of 180 days from February 6, 2006, that they will not, without the prior written consent of Credit Suisse Securities (USA) LLC, offer to sell, sell or otherwise dispose of any shares of our common stock.

Credit Suisse Securities (USA) LLC may, at any time, release all or a portion of the securities subject to these lockup provisions. There are no present agreements between the Credit Suisse Securities (USA) LLC and us or any of our executive officers, directors or stockholders releasing them or us from these lockup agreements. However, we cannot predict the circumstances or timing under which Credit Suisse Securities (USA) LLC may waive these restrictions. If the restrictions under the lockup agreements with members of our senior management, directors, members of our investment committee, the Manager, Resource America are waived or terminated, or upon expiration of a lockup period, approximately 1,365,667 shares will be available for sale into the market at that time, subject only to applicable securities rules and regulations. These sales or a perception that these sales may occur could reduce the market price for our common stock.

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

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

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

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

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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

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at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our board of directors may amend our bylaws in the future to repeal this exemption.

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

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

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

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

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

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

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

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

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

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

In addition, our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present or former director or officer, to the maximum extent permitted by Maryland law, in the 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 prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We may not be able to make distributions in the future. In addition, some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated taxable earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes. A return of capital is not taxable, but it has the effect of reducing the holder's tax basis in its investment. Although we currently do not expect that we will do so, we may also use uninvested offering proceeds or borrowed funds to make distributions. Previously, we funded our first distribution in July 2005 out of uninvested proceeds from our March 2005 private offering. The distribution exceeded GAAP net income for the period from inception of operations through June 30, 2005 by \$905,000. If we use uninvested offering proceeds to pay distributions in the future, we will have less funds available for investment and, as a result, our earnings and cash available for distribution would be less than we might otherwise have realized had such funds been invested. Similarly, if we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

**Tax Risks**

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

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

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

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

Excess inclusion income could result if we hold a residual interest in a real estate mortgage investment conduit, or REMIC. Excess inclusion income also could be generated if we issue debt obligations, such as certain CDOs, with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage related securities securing those debt obligations, i.e., if we were to own an interest in a taxable mortgage pool. However, the Department of Treasury has not issued regulations regarding the allocation of excess inclusion income to stockholders of a REIT that owns an interest in a taxable mortgage pool. While we do not expect to acquire significant

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amounts of residual interests in REMICs, we will 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 may be taxable at the highest corporate income tax rate on a portion of such income that is allocable to the percentage of our stock held by [disqualified organizations], which are generally cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business taxable income. Although the law on the matter is unclear, we may also be taxable at the highest corporate income tax rate on a portion of excess inclusion income arising from a taxable mortgage pool that is allocable to the percentage of our stock held by 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.

***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 operate in a manner that is intended to cause us to qualify as a REIT for federal income tax purposes commencing with our taxable year ending on December 31, 2005. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

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

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

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

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

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

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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.

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

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

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

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

Resource TRS will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. Income that is not distributed to us by Resource TRS will not be subject to the REIT 90% distribution requirement and therefore will not be available for distributions to our stockholders. We anticipate that the aggregate value of the securities of Resource TRS, together with the securities we hold in our other TRSs, including Apidos CDO I, 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.

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***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.

***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.

***The tax treatment of income inclusions from our foreign TRSs or other corporations that are not REITs or qualified REIT subsidiaries is unclear for purposes of the gross income requirements for REITs.***

We may be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs or other corporations that are not REITs or qualified REIT subsidiaries, including from our current and contemplated equity investments in CDOs, such as our investment in Apidos CDO I and Apidos CDO III. We intend to treat 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. Because there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests, we cannot assure you that the IRS will not assert a contrary position. In the event that such income was determined not to qualify for the 95% gross income test, we could fail to qualify as a REIT. Even if such income does not cause us to fail to qualify as a REIT because of relief provisions, we would be subject to a penalty tax with respect to such income to the extent it, together with any other non-qualifying income, exceeds 5% of our gross income.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements under "Summary," "Risk Factors," "Distribution Policy," "Business" and elsewhere in this prospectus constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "project," "should," "will" and negative of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Forward-looking statements we make in this offering memorandum are subject to various risks and uncertainties that could cause actual results to vary from our forward-looking statements, including:

- the factors described in this offering memorandum, including those set forth under the sections captioned "Risk Factors" and "Business";
- our future operating results;
- our business prospects;
- general volatility of the securities markets in which we invest and the market price of our common stock;
- changes in our business strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in our industry, interest rates, the debt securities markets or the general economy;
- increased rates of default and/or decreased recovery rates on our investments;
- increased prepayments of the mortgage and other loans underlying our mortgage-backed or other asset-backed securities;
- changes in governmental regulations, tax rates and similar matters;
- availability of investment opportunities in real estate-related and commercial finance assets;
- the degree and nature of our competition;
- the adequacy of our cash reserves and working capital; and
- the timing of cash flows, if any, from our investments.



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### **USE OF PROCEEDS**

We will not receive any proceeds from the sale by the selling stockholders of the shares of common stock offered by this prospectus.

[Back to Contents](#)**PRICE RANGE OF OUR COMMON STOCK AND DISTRIBUTIONS**

Our common stock is listed on the New York Stock Exchange under the symbol "RSO." The following table sets forth the high and low sales prices of our common stock for the period indicated.

	<u>High</u>	<u>Low</u>	<u>Distributions declared (1)</u>
April 1, 2006 to May 18, 2006	\$ 14.23	\$ 13.44	\$ □(2)
February 7, 2006 to March 31, 2006	\$ 14.79	\$ 13.67	\$ 0.33

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

(2) Distribution not yet declared.

Prior to our February 2006 initial public offering, there was no public trading market for our common stock. Shares of our common stock issued to qualified institutional buyers in connection with our March 2005 private offering were eligible for trading in the PORTAL (SM) Market, or PORTAL, a subsidiary of the NASDAQ Stock Market, Inc., which permits secondary sales of eligible unregistered securities to qualified institutional buyers in accordance with Rule 144A under the Securities Act. To our knowledge, there was only one trade of our common stock on PORTAL, which was executed on June 10, 2005 at a price of \$15.00 per share. The information regarding PORTAL prices may not be complete since we have access only to information regarding trades reported by the underwriters of our February 2006 initial public offering and not trades reported by other broker-dealers. Moreover, broker-dealers are not required to report all trades to PORTAL.

As of May 17, 2006, we had 17,813,096 shares of our common stock outstanding which were held by 37 holders of record.

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## DISTRIBUTION POLICY

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

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

To maintain our qualification as a REIT under the Internal Revenue Code, we intend to make regular quarterly distributions to our stockholders of at least 90% of our REIT taxable income, which is determined as of the close of our taxable year. Further, to avoid any REIT level corporate income tax and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net taxable income. In July 2005, our board of directors declared a quarterly distribution of \$3.1 million, or \$0.20 per share of common stock, which was paid on July 29, 2005. We funded the distribution from uninvested proceeds of our March 2005 private offering. We subsequently paid a distribution of \$4.7 million, or \$0.30 per share of our common stock, on October 20, 2005 and a distribution of \$5.6 million, or \$0.36 per share of our common stock, on January 17, 2006. While the \$13.5 million of distributions paid on July 29, 2005, October 20, 2005 and January 17, 2006 were less than our \$13.7 million of REIT taxable income, they exceeded our \$10.9 million of GAAP net income by \$2.8 million. The difference between REIT taxable income and GAAP net income resulted from amortization of non-cash compensation relating to restricted stock and options to purchase common stock granted to the Manager in connection with our March 2005 private offering. On March 16, 2006, our board of directors declared a quarterly distribution of \$5.9 million, or \$0.33 per share of our common stock, payable on April 10, 2006 to stockholders of record on March 27, 2006. Our GAAP net income for the quarter ended March 31, 2006 was \$5.2 million and our estimated REIT taxable income was \$7.2 million.

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

[Back to Contents](#)**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following table presents summary historical consolidated financial information as of and for the periods indicated. We derived the information as of March 31, 2006 and for the period March 8, 2005 (date operations commenced) to March 31, 2005 from our unaudited financial statements included elsewhere in this prospectus. We derived the information as of December 31, 2005 and for the period ending December 31, 2005 from our consolidated financial statements, which have been audited by Grant Thornton LLP, an independent registered public accounting firm, whose report is included elsewhere in this prospectus. Since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	<b>As of and for the Three Months ended March 31, 2006</b>	<b>As of and for the period from March 8, 2005 (date operations commenced) to March 31, 2005</b>	<b>As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005</b>
<b>(unaudited)</b>			
<b>(in thousands, except share and per share data)</b>			
<b>Consolidated Income Statement Data:</b>			
Revenues:			
Net interest income:			
Interest income	\$ 29,433	\$ 694	\$ 61,387
Interest expense	21,202	210	43,062
Net interest income	8,231	484	18,325
Other revenue:			
Net realized gain (loss) on investments	(699)	□	311
Expenses:			
Management fee expense-related party	993	208	3,012
Equity compensation expense-related party	582	209	2,709
Professional services	261	22	516
Insurance expense	120	30	395
General and administrative	426	63	1,096
Total expenses	2,382	532	7,728
Net income (loss)	\$ 5,150	\$ (48)	\$ 10,908
Net income (loss) per share □ basic	\$ 0.31	\$ (0.00)	\$ 0.71
Net income (loss) per share □ diluted	\$ 0.31	\$ (0.00)	\$ 0.71
Weighted average number of shares outstanding □ basic	16,617,808	15,333,334	15,333,334

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Weighted average number of shares outstanding □ diluted	16,752,520	15,333,334	15,405,714
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**Consolidated Balance Sheet Data:**

Cash and cash equivalents	\$ 23,671	\$ 112,599	\$ 17,729
Restricted cash	20,040	□	23,592
Available-for-sale securities, pledged as collateral, at fair value	1,185,485	414,564	1,362,392
Available-for-sale securities, at fair value	42,873	86,605	28,285
Loans, net of allowances of \$0, \$0 and \$0	683,908	□	570,230
Total assets	2,038,886	615,973	2,045,547
Repurchase agreements (including accrued interest of \$1,485, \$210 and \$2,104)	917,293	400,963	1,068,277
CDOs	687,686	□	687,407
Warehouse agreements	132,793	□	62,961
Secured term facility	55,767	□	□
Total liabilities	1,811,009	401,491	1,850,214
Total stockholders' equity	227,877	214,482	195,333

**Other Data:**

Dividends declared per common share	\$ 0.33	\$ (0.00)	\$ 0.86
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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion provides information to assist 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 intends to qualify and will elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes commencing with our taxable year ending December 31, 2005. Our objective is to provide attractive risk-adjusted total returns over time to our stockholders through both stable quarterly distributions and capital appreciation. We make investments 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 risks through derivative instruments.

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 agency and non-agency residential mortgage-backed securities, or RMBS, commercial mortgage-backed securities, or CMBS, mezzanine debt, first priority tranches of commercial mortgage loans, or A notes, subordinated tranches of commercial mortgage loans, or B notes, other asset-backed securities, or ABS, syndicated bank loans and payments on equipment leases and notes. We use a substantial amount of leverage to enhance our returns and we finance each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income will depend on our ability to control these expenses relative to our revenue. In our non-agency RMBS, CMBS, other ABS, syndicated bank loans and equipment leases and notes, we use warehouse facilities as a short-term financing source and collateralized debt obligations, or CDOs, and, to a lesser extent, other term financing as a long-term financing source. In our commercial real estate loan portfolio, we use repurchase agreements as a short-term financing source and CDOs and, to a lesser extent, other term financing as a long-term financing source. We expect that our other term financing will consist of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs. In our agency RMBS portfolio, we finance the acquisition of our investments with short-term repurchase arrangements. We seek to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency RMBS and the maturities and repricing dates of the repurchase agreements we use to finance them through derivative instruments, principally floating-to-fixed interest rate swap agreements and interest rate cap agreements.

On March 8, 2005, we received net proceeds of \$214.8 million from a private placement of 15,333,334 shares of common stock. On February 10, 2006, we received net proceeds of \$27.6 million from our initial public offering of 4,000,000 shares of common stock (including 1,879,200 shares sold by certain selling stockholders of the Company). As of March 31, 2006, we had invested 12.1% of our portfolio in commercial real estate-related assets, 42.3% in agency RMBS, 17.4% in non-agency RMBS and 28.2% in commercial finance assets. We intend to diversify our portfolio over our targeted asset classes during the next 12 months as follows: between 20% and 25% in commercial real estate-related assets, between 25% and 30% in agency RMBS, between 15% and 20% in non-agency RMBS, and between 30% and 35% in commercial finance assets, subject to the availability of appropriate investment opportunities and changes in market conditions. We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. If we are unable to maintain the credit quality of our portfolio, however, our earnings will decrease. Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes.

We are externally managed by the Manager, an indirect wholly-owned subsidiary of Resource America, a publicly traded specialized asset management company that uses industry specific expertise to generate and administer investment opportunities for its own account and for institutional and sophisticated individual

investors in financial fund management (primarily RMBS, CMBS and other ABS), real estate and equipment finance. As of December 31, 2005, Resource America managed approximately \$8.6 billion of assets, including approximately \$4.1 billion of assets in CDOs.

As we develop our investment portfolio, we expect that our ability to achieve our objectives, as well as to operate profitably, will be affected by a variety of economic and industry factors. These factors include:

- our ability to maintain a positive spread between our MBS and the borrowings we use to fund the purchase of our MBS, which may be adversely affected by a rising interest rate environment such as currently exists;
- the difference between actual prepayment speeds on mortgages underlying our MBS and the prepayment speeds that we projected when we acquired the MBS; typically, prepayment speeds increase in periods of declining interest rates and decrease in periods of rising interest rates such as currently exists;
- our ability to obtain funding and our borrowing capacity, which affects our ability to acquire assets;
- our intended use of leverage;
- our borrowing costs, which affect our cost of acquiring and holding our assets;
- our ability to obtain suitable hedging for our interest rate risks and the extent and cost of that hedging;
- the market value of our investments;
- our need to comply with REIT and Investment Company Act requirements, which will affect the nature and composition of our investment portfolio and the amount of revenues we derive from it; and
- other market developments.

We expect to face increased competition for our targeted investments. This increased competition could result in our having to pay increased prices for our investments, receiving lower yields on invested capital, or both, which could reduce the net interest spread on our portfolio and, as a result, our net income. While we expect that the size and growth of the market for our targeted investments will continue to provide us with a variety of investment opportunities, increased competition may make it more difficult to identify and acquire investments that are consistent with our investment objectives. However, we also believe that bank lenders will continue their historic lending practices of requiring low loan-to-value ratios and high debt service coverage ratios, which will provide lending opportunities to us.

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## Results of Operations

Our portfolio investments have been comprised of commercial real estate loans, agency RMBS, non-agency RMBS, other ABS, syndicated bank loans, private equity and equipment leases and notes. We have financed our agency RMBS portfolio and commercial real estate loan portfolio through short-term repurchase agreements, our non-agency RMBS, other ABS and syndicated bank loans through warehouse facilities as a short-term financing source and our equipment lease and notes portfolio through a secured term facility. We intend to use CDOs and other secured borrowings as a long-term financing source for our non-agency RMBS, other ABS, syndicated bank loans and commercial real estate loans. In 2005, we closed two CDO financings and entered into an arrangement with respect to a third CDO financing. In general, to the extent that we do not hedge the interest rate exposure within our agency RMBS portfolio, rising interest rates (particularly short-term rates) will decrease our net interest income from levels that might otherwise be expected, as the cost of our repurchase agreements will rise faster than the yield on our agency RMBS. In addition, our agency RMBS are subject to interest rate caps while the short-term repurchase agreements we use to finance them are not. As a result, if interest rates rise to the point where increases in our interest income are limited by these caps, our net interest income could be reduced or, possibly, we could incur losses. In January 2006, we entered into an amortizing swap agreement that will

extend the period of time we have hedged the risks on our agency RMBS portfolio through October 2007. Concurrently with entering into this interest rate swap agreement, we sold approximately \$125.4 million of agency RMBS, thereby reducing our portfolio of agency RMBS to \$853.5 million, on a cost basis. We expect to continue to lower our exposure to this asset class as prepayments are received on this portfolio. As of March 31, 2006, we had entered into interest rate swaps that seek to hedge a substantial portion of the risks associated with increasing interest rates with maturities ranging from May 2006 through October 2007.

The yield on our RMBS may be affected by a difference between the actual prepayment rates of the underlying mortgages and those that we projected when we acquired the RMBS. See "Risk Factors – Risks Related to Our Investments – Increased levels of prepayments on our MBS might decrease our net interest income or result in a net loss." In periods of declining interest rates, prepayments will likely increase. If we are unable to reinvest the proceeds of such repayments at comparable yields, our net interest income may suffer. In a rising interest rate environment, prepayment rates on our assets will likely slow, causing their expected lives to increase. This may cause our net interest income to decrease as our borrowing and hedging costs may rise while our interest income on these assets will remain constant.

As we seek to diversify our investment portfolio from our investment position in agency RMBS, we will seek to execute our match-funding strategy for non-agency RMBS, commercial real estate-related assets and commercial finance assets. However, we may not be able to execute this strategy fully, or at all. We expect that, for any period in which we do not match fund these assets, they will reprice more slowly than their related funding. In a rising interest rate environment, such as currently exists; our net interest income could be reduced from levels that might otherwise be expected, or we could incur losses.

### ***For the Three Months Ended March 31, 2006***

#### *Summary*

Our net income for the three months ended March 31, 2006 was \$5.2 million, or \$0.31 per weighted-average common share (basic and diluted).

#### *Net Interest Income*

Net interest income for the three months ended March 31, 2006 totaled \$8.2 million. Investment income totaled \$29.4 million and was comprised of \$10.2 million of interest income on our agency RMBS portfolio, \$6.1 million of interest income on our non-agency RMBS, CMBS and other ABS portfolio, \$7.5 million of interest income on our syndicated loan portfolio, \$3.5 million of interest income on our commercial real estate loan portfolio, \$536,000 of interest income from our private equity and leasing portfolios, \$1.2 million related to interest rate swap agreements and \$324,000 of income from our temporary investment of offering proceeds in over-night repurchase agreements. Our interest income was offset by \$21.2 million of interest expense, consisting of \$9.1 million on our repurchase agreements on our agency RMBS portfolio, \$8.6 million on our CDO senior notes, \$1.2 million on our warehouse agreements, \$1.8 million on our commercial real estate loan portfolio, \$279,000 of amortization of debt issuance costs related to our two CDO offerings and \$138,000 on our leasing portfolio term credit facility and corporate credit facility.

#### *Other Gains and Losses*

Net realized loss on investments for the three months ended March 31, 2006 of \$699,000 consisted of \$1.4 million of losses related to the sale of available-for-sale securities, \$143,000 of net realized gains on the sale of bank loans and \$570,000 related to the early termination of two equipment leases.



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### *Non-Investment Expenses*

Non-investment expenses for the three months ended March 31, 2006 totaled \$2.4 million. Management fees for the period totaled \$993,000, of which \$880,000 was related to base management fees and \$113,000 was related to incentive management fees due to the Manager pursuant to our management agreement. Equity compensation expense-related party totaled \$582,000 and consisted of amortization related to the March 8, 2005 grant of restricted common stock to the Manager and consisted of amortization related to the March 8, 2005 and 2006 grants of restricted common stock to our non-employee independent directors and the grant of options to the Manager to purchase common stock. Professional services totaled \$261,000 and consisted of audit, tax and legal costs. Insurance expense of \$120,000 was the amortization related to our purchase of directors' and officers' insurance. General and administrative expenses totaled \$426,000 which includes \$272,000 of expense reimbursements due to the Manager and \$45,000 of rating agency expenses.

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

#### *Summary*

Our net loss for the period from March 8, 2005 to March 31, 2005 was \$48,000, or \$0.00 per weighted-average common share (basic and diluted). Since we only had 23 days of operations during the period from inception through March 31, 2005, which represented our initial period of operations following our private placement, we do not deem this period to be comparable to the quarter ended March 31, 2006.

#### *Net Interest Income*

Net interest income for the period totaled \$484,000. Investment income totaled \$694,000 and was comprised of \$404,000 of interest income on our agency RMBS portfolio and \$290,000 of income from our temporary investment of offering proceeds in over-night repurchase agreements. Our interest income was offset by \$210,000 of interest expense on our repurchase agreements on our agency RMBS portfolio.

### *Non-Investment Expenses*

Non-investment expenses for the period totaled \$532,000. Management fees for the period totaled \$208,000, all of which was related to base management fees due to the Manager pursuant to our management agreement. Equity compensation expense-related party totaled \$209,000 and consisted of amortization related to the March 8, 2005 grant of restricted common stock to the Manager and our non-employee independent directors and the grant of options to the Manager to purchase common stock. Professional services totaled \$22,000 and consisted of audit, tax and legal costs. Insurance expense of \$30,000 was the amortization related to our purchase of directors' and officers' insurance. General and administrative expenses totaled \$63,000, which includes \$52,000 of expense reimbursements due to the Manager.

#### *Income Taxes*

We do not pay federal income tax on income we distribute to our stockholders, subject to our compliance with REIT qualification requirements. However, Resource TRS, our domestic TRS, is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code. As of March 31, 2006 and 2005, we did not conduct any of our operations through Resource TRS.

Apidos CDO I, our foreign TRS, was formed to complete a securitization transaction structured as a secured financing. Apidos CDO I is organized as an exempt company incorporated with limited liability under the laws of the Cayman Islands and is generally exempt from federal and state income tax at the corporate level because its activities in the United States are limited to trading in stock and securities for its own account. Therefore, despite its status as a TRS, it generally will not be subject to corporate tax on its earnings and no provision for income taxes is required; however, we generally will be required to include Apidos CDO I's current taxable income in our calculation of REIT taxable income. We also intend to make an election to treat Apidos CDO III as a TRS. Apidos CDO III was formed to complete a securitization transaction and is expected to close in May 2006.

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

*Summary*

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

*Net Interest Income*

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

*Other Gains and Losses*

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

*Non-Investment Expenses*

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

*Income Taxes*

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

Apidos CDO I, our foreign TRS, was formed to complete a securitization transaction structured as a secured financing. Apidos CDO I is organized as an exempt company incorporated with limited liability under the laws of the Cayman Islands and is generally exempt from federal and state income tax at the corporate level because its activities in the United States are limited to trading in stock and securities for its own account. Therefore, despite its status as a TRS, it generally will not be subject to corporate tax on its earnings and no provision for income taxes is required; however, we generally will be required to include Apidos CDO I's current taxable income in our calculation of REIT taxable income. We also intend to make an election to treat Apidos CDO III as a TRS. Apidos CDO III was formed to complete a securitization transaction and is expected to close during 2006.

[Back to Contents](#)**Financial Condition***Summary*

Our total assets at March 31, 2006 were \$2.04 billion, as compared to \$2.05 billion at December 31, 2005. The reduction in total assets principally was due to the sale of approximately \$125.4 million of agency RMBS coupled with principal repayments of \$35.6 million on this portfolio. This decrease was largely offset by an increase of \$69.8 million in our syndicated loans held by Apidos CDO III, a \$40.7 million increase in our commercial real estate loan portfolio resulting from the purchase of two additional loans and two additional fundings on existing loan positions and a \$38.2 million increase in equipment leases and notes in connection with our second purchase of leasing assets from LEAF Financial Corporation in March 2006. As a result of the sale of approximately \$125.4 million of agency RMBS, we reduced the associated debt with this portfolio. Our liquidity at March 31, 2006 was strengthened over that at December 31, 2005 by the completion of our initial public offering in February 2006 which resulted in net proceeds of \$27.6 million after deducting underwriters' discounts and commissions and offering expenses. As of March 31, 2006, we had approximately \$23.7 million of cash and cash equivalents that we had not deployed or leveraged.

*Investment Portfolio*

The tables below summarize the amortized cost and estimated fair value of our investment portfolio as of March 31, 2006 and as of December 31, 2005, classified by interest rate type. The tables below include both (i) the amortized cost of our investment portfolio and the related dollar price, which is computed by dividing amortized cost by par amount, and (ii) the estimated fair value of our investment portfolio and the related dollar price, which is computed by dividing the estimated fair value by par amount (in thousands, except percentages):

**March 31, 2006**

	<u>Amortized cost</u>	<u>Dollar price</u>	<u>Estimated fair value</u>	<u>Dollar price</u>	<u>Estimated fair value less amortized cost</u>	<u>Dollar price</u>
<b>Floating rate</b>						
Non-agency RMBS	\$ 339,038	99.12%	\$ 338,917	99.08%	\$ (121)	-0.04%
CMBS	444	100.00%	445	100.23%	1	0.23%
Other ABS	18,244	99.87%	18,231	99.80%	(13)	-0.07%
A notes	20,000	100.00%	20,000	100.00%	—	0.00%
B notes	136,262	99.90%	136,262	99.90%	—	0.00%
Mezzanine loans	50,913	99.88%	50,913	99.88%	--	0.00%
Syndicated bank loans	471,472	100.20%	474,331	100.81%	2,859	0.61%
<b>Total floating rate</b>	<b>\$ 1,036,373</b>	<b>99.78%</b>	<b>\$ 1,039,099</b>	<b>100.04%</b>	<b>\$ 2,726</b>	<b>0.26%</b>
<b>Hybrid rate</b>						
Agency RMBS	\$ 853,536	100.08%	\$ 835,276	97.94%	\$ (18,260)	-2.14%
<b>Total hybrid rate</b>	<b>\$ 853,536</b>	<b>100.08%</b>	<b>\$ 835,276</b>	<b>97.94%</b>	<b>\$ (18,260)</b>	<b>-2.14%</b>
<b>Fixed rate</b>						
Non-agency RMBS	\$ 6,000	100.00%	\$ 5,792	96.53%	\$ (208)	-3.47%
CMBS	27,520	98.66%	26,570	95.26%	(950)	-3.40%

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Other ABS	3,314	99.97%	3,127	94.33%	(187)	-5.64%
Mezzanine loans	5,012	100.24%	5,012	100.24%	–	0.00%
Syndicated bank loans	249	99.60%	249	99.60%	–	0.00%
Equipment leases and notes	61,539	100.00%	61,539	100.00%	–	0.00%
<b>Total fixed rate</b>	<b>\$ 103,634</b>	<b>99.65%</b>	<b>\$ 102,289</b>	<b>98.36%</b>	<b>\$ (1,345)</b>	<b>-1.29%</b>
<b>Grand total</b>	<b>\$ 1,993,543</b>	<b>99.90%</b>	<b>\$ 1,976,664</b>	<b>99.06%</b>	<b>\$ (16,879)</b>	<b>-0.84%</b>

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	December 31, 2005					
	Amortized cost	Dollar price	Estimated fair value	Dollar price	Estimated fair value less amortized cost	Dollar price
<b>Floating rate</b>						
Non-agency RMBS	\$ 340,460	99.12%	\$ 331,974	96.65%	\$ (8,486)	-2.47 %
CMBS	458	100.00%	459	100.22%	1	0.22 %
Other ABS	18,731	99.88%	18,742	99.94%	11	0.06 %
B notes	121,945	100.00%	121,945	100.00%	-	0.00 %
Mezzanine loans	44,500	100.00%	44,500	100.00%	--	0.00 %
Syndicated bank loans	398,536	100.23%	399,979	100.59%	1,443	0.36 %
Private equity	1,984	99.20%	1,954	97.70%	(30)	-1.50 %
<b>Total floating rate</b>	<b>\$ 926,614</b>	<b>99.77%</b>	<b>\$ 919,553</b>	<b>99.01%</b>	<b>\$ (7,061)</b>	<b>-0.76 %</b>
<b>Hybrid rate</b>						
Agency RMBS	\$ 1,014,575	100.06%	\$ 1,001,670	98.79%	\$ (12,905)	-1.27 %
<b>Total hybrid rate</b>	<b>\$ 1,014,575</b>	<b>100.06%</b>	<b>\$ 1,001,670</b>	<b>98.79%</b>	<b>\$ (12,905)</b>	<b>-1.27 %</b>
<b>Fixed rate</b>						
Non-agency RMBS	\$ 6,000	100.00%	\$ 5,771	96.18%	\$ (229)	-3.82 %
CMBS	27,512	98.63%	26,904	96.45%	(608)	-2.18 %
Other ABS	3,314	99.97%	3,203	96.62%	(111)	-3.35 %
Mezzanine loans	5,000	100.00%	5,000	100.00%	-	0.00 %
Syndicated bank loans	249	99.60%	246	98.40%	(3)	-1.20 %
Equipment leases and notes	23,317	100.00%	23,317	100.00%	-	0.00 %
<b>Total fixed rate</b>	<b>\$ 65,392</b>	<b>99.42%</b>	<b>\$ 64,441</b>	<b>97.97%</b>	<b>\$ (951)</b>	<b>-1.45 %</b>
<b>Grand total</b>	<b>\$ 2,006,581</b>	<b>99.90%</b>	<b>\$ 1,985,664</b>	<b>98.86%</b>	<b>\$ (20,917)</b>	<b>-1.04 %</b>

*Residential Mortgage-Backed Securities*

At March 31, 2006 and December 31, 2005, the mortgages underlying our hybrid adjustable rate agency RMBS had fixed interest rates for a weighted average of approximately 56 months and 52 months, respectively, after which time the rates reset and become adjustable. The average length of time until maturity of those mortgages was 28.8 years and 29.1 years, respectively. These mortgages are also subject to interest rate caps that limit both the amount that the applicable interest rate can increase during any year, known as an annual cap, and the amount that it can rise through maturity of the mortgage, known as a lifetime cap. After the interest rate reset date, interest rates on our hybrid adjustable rate agency RMBS float based on spreads over various London Interbank Offered Rate, or LIBOR indices. The weighted average lifetime cap for our portfolio is an increase of 6%; the weighted average maximum annual increase is 2%.

The following tables summarize our hybrid adjustable rate agency RMBS portfolio as of March 31, 2006 and December 31, 2005 (dollars in thousands):

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March 31, 2006

Security description	Amortized cost	Estimated fair value	Weighted average	
			Coupon	Months to reset <sup>(1)</sup>
3-1 hybrid adjustable rate RMBS	\$ 259,087	\$ 255,545	4.13%	26.7
5-1 hybrid adjustable rate RMBS	173,024	169,734	4.72%	54.4
7-1 hybrid adjustable rate RMBS	421,425	409,997	4.81%	75.6
Total	\$ 853,536	\$ 835,276	4.58%	56.3

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## December 31, 2005

Security description	Amortized cost	Estimated fair value	Weighted average	
			Coupon	Months to reset <sup>(1)</sup>
3-1 hybrid adjustable rate RMBS	\$ 405,047	\$ 400,807	4.16%	25.2
5-1 hybrid adjustable rate RMBS	178,027	176,051	4.73%	54.3
7-1 hybrid adjustable rate RMBS	431,501	424,812	4.81%	75.6
Total	\$ 1,014,575	\$ 1,001,670	4.54%	51.7

(1) Represents number of months before conversion to floating rate.

At March 31, 2006, we held \$835.3 million of agency RMBS, at fair value, which is based on market prices provided by dealers, net of unrealized losses of \$18.3 million, as compared to \$1.0 billion at December 31, 2005, net of unrealized gains of \$13,000 and unrealized losses of \$12.9 million. As of March 31, 2006, our agency RMBS portfolio had a weighted-average amortized cost of 100.08%, largely unchanged from the weighted-average amortized cost of 100.06% at December 31, 2005. Our agency RMBS were purchased at a premium of \$716,000 and \$594,000 at March 31, 2006 and December 31, 2005, respectively, and were valued below par because the weighted-average coupons of 4.58% and 4.54% and the corresponding interest rates of loans underlying our agency RMBS were below prevailing market rates. In the current increasing interest rate environment, we expect that the fair value of our RMBS will continue to decrease, thereby increasing our net unrealized losses.

At March 31, 2006, we held \$344.7 million of non-agency RMBS, at fair value, which is based on market prices provided by dealers, net of unrealized gains of \$1.5 million and unrealized losses of \$1.8 million as compared to \$337.7 million at December 31, 2005, net of unrealized gains of \$370,000 and unrealized losses of \$9.1 million. At both March 31, 2006 and December 31, 2005, our non-agency RMBS portfolio had a weighted-average amortized cost of 99.13%. As of March 31, 2006 and December 31, 2005, our non-agency RMBS were valued below par, in the aggregate, because of wide credit spreads during the respective periods. The decrease in the unrealized loss position of this portfolio during the three months ended March 31, 2006 resulted from a tightening of credit spreads. If credit spreads continue to tighten, we expect that the fair value of our non-agency RMBS will continue to increase, thereby decreasing our net unrealized losses.

At both March 31, 2006 and December 31, 2005, none of the securities whose fair market value was below amortized cost had been downgraded by a credit rating agency and 85.2% and 76.9%, respectively, were guaranteed by either Freddie Mac or Fannie Mae. We intend and have the ability to hold these securities until maturity to allow for the anticipated recovery in fair value as they reach maturity.

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

## March 31, 2006

	Agency RMBS	Non-agency RMBS	Total RMBS
RMBS, gross	\$ 852,820	\$ 348,065	\$ 1,200,885
Unamortized discount	(518)	(3,191)	(3,709)
Unamortized premium	1,234	164	1,398

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Amortized cost	853,536	345,038	1,198,574
Gross unrealized gains	–	1,477	1,477
Gross unrealized losses	(18,260)	(1,806)	(20,066)
Estimated fair value	\$ 835,276	\$ 344,709	\$ 1,179,985
Percent of total	70.8%	29.2%	100.0%

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## December 31, 2005

	Agency RMBS	Non-agency RMBS	Total RMBS
RMBS, gross	\$ 1,013,981	\$ 349,484	\$ 1,363,465
Unamortized discount	(777)	(3,188)	(3,965)
Unamortized premium	1,371	164	1,535
Amortized cost	1,014,575	346,460	1,361,035
Gross unrealized gains	13	370	383
Gross unrealized losses	(12,918)	(9,085)	(22,003)
Estimated fair value	\$ 1,001,670	\$ 337,745	\$ 1,339,415

Percent of total 74.8% 25.2% 100.0%

The table below describes the terms of our RMBS portfolio as of March 31, 2006 and December 31, 2005 (dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	March 31, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Aaa	\$ 853,536	100.08%	\$ 1,014,575	100.06%
A1 through A3	42,324	100.23%	42,172	100.23%
Baa1 through Baa3	279,740	99.84%	281,929	99.85%
Ba1 through Ba3	22,974	89.51%	22,359	89.20%
Total	\$ 1,198,574	99.81%	\$ 1,361,035	99.82%
<b>S&amp;P ratings category:</b>				
AAA	\$ 853,536	100.08%	\$ 1,014,575	100.06%
AA+ through AA-	—	—%	2,000	100.00%
A+ through A-	59,586	99.58%	59,699	99.55%
BBB+ through BBB-	262,729	99.01%	262,524	98.99%
BB+ through BB-	1,723	92.39%	1,199	94.78%
No rating provided	21,000	100.00%	21,038	100.00%
Total	\$ 1,198,574	99.81%	\$ 1,361,035	99.82%
Weighted average rating factor	118		104	
Weighted average original FICO <sup>(1)</sup>	631		633	
Weighted average original LTV <sup>(1)</sup>	79.01%		80.02%	

- (1) Weighted average only reflects the 29.2% and 25.2%, respectively, of the RMBS in our portfolio that are non-agency.

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

[Back to Contents](#)*Commercial Mortgage-Backed Securities*

At March 31, 2006 and December 31, 2005, we held \$27.0 million and \$27.4 million, respectively, of CMBS at fair value, which is based on market prices provided by dealers, net of unrealized gains of \$44,000 and \$1,000, respectively, and unrealized losses of \$993,000 and \$608,000, respectively. In the aggregate, we purchased our CMBS portfolio at a discount. As of March 31, 2006, the remaining discount to be accreted into income over the remaining lives of the securities was \$373,000, which was substantially the same as the \$380,000 to be accreted into income at December 31, 2005. These securities are classified as available-for-sale and as a result are carried at their fair market value.

The table below describes the terms of our CMBS as of March 31, 2006 and December 31, 2005 (dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	March 31, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Baa1 through Baa3	\$ 27,964	98.68%	\$ 27,970	98.66%
Total	\$ 27,964	98.68%	\$ 27,970	98.66%
<b>S&amp;P ratings category:</b>				
BBB+ through BBB-	\$ 12,215	99.01%	\$ 12,225	98.98%
No rating provided	15,749	98.43%	15,745	98.41%
Total	\$ 27,964	98.68%	\$ 27,970	98.66%
Weighted average rating factor	346		346	

*Other Asset-Backed Securities*

At March 31, 2006 and December 31, 2005, we held \$21.4 million and \$21.9 million, respectively, of other ABS at fair value, which is based on market prices provided by dealers, net of unrealized gains of \$52,000 and \$24,000, respectively, and unrealized losses of \$252,000 and \$124,000, respectively. In the aggregate, we purchased our other ABS portfolio at a discount. As of March 31, 2006 and December 31, 2005, the remaining discount to be accreted into income over the remaining lives of securities was \$24,000 and \$25,000, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair market value.

The table below describes the terms of our other ABS as of March 31, 2006 and December 31, 2005 (dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	March 31, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Baa1 through Baa3	\$ 21,558	99.88%	\$ 22,045	99.89%
Total	\$ 21,558	99.88%	\$ 22,045	99.89%
<b>S&amp;P ratings category:</b>				
BBB+ through BBB-	\$ 19,091	99.87%	\$ 19,091	99.87%

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No rating provided	2,467	99.96%	2,954	100.00%
	<u>          </u>		<u>          </u>	
Total	\$ 21,558	99.88%	\$ 22,045	99.89%
	<u>          </u>		<u>          </u>	
Weighted average rating factor	398		398	
		57		

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### *Private Equity Investments*

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

### *Commercial Loans*

At March 31, 2006, our commercial real estate loan portfolio consisted of:

- one A note with an amortized cost of \$20.0 million which bears interest at a floating rate of LIBOR plus 1.25% with a maturity date of January 2008;
- eight B notes with an amortized cost of \$136.3 million which bear interest at floating rates ranging from LIBOR plus 2.15% to LIBOR plus 6.25% and have maturity dates ranging from January 2007 to April 2008;
- four mezzanine loans with an amortized cost of \$44.4 million which bear interest at floating rates between LIBOR plus 2.25% and LIBOR plus 4.50% with maturity dates ranging from August 2007 to July 2008;
- one mezzanine loan with an amortized cost of \$6.5 million which bears interest at the 10-Year Treasury rate plus 6.64% with a maturity date of January 2016; and
- one mezzanine loan with an amortized cost of \$5.0 million which bears interest at a fixed rate of 9.50% with a maturity of May 2010.

At December 31, 2005, the Company's commercial real estate loan portfolio consisted of:

- seven B notes with an amortized cost of \$121.9 million which bear interest at floating rates ranging from LIBOR plus 2.15% to LIBOR plus 6.25% and have maturity dates ranging from January 2007 to April 2008;
- four mezzanine loans with an amortized cost of \$44.5 million which bear interest at floating rates between LIBOR plus 2.25% and LIBOR plus 4.50% with maturity dates ranging from August 2007 to July 2008; and
- one mezzanine loan with an amortized cost of \$5.0 million which bears interest at a fixed rate of 9.50% with a maturity of May 2010.

### *Syndicated Bank Loans*

At March 31, 2006, we held a total of \$474.6 million of syndicated loans at fair value, of which \$341.0 million are held by and secure the debt issued by Apidos CDO I, an increase of \$74.4 million and \$3.8 million, respectively, over our holdings at December 31, 2005. The increase in total syndicated loans was principally due to the continued ramping of Apidos CDO III. We own 100% of the equity issued by Apidos CDO I, which we have determined is a variable interest entity, or VIE, and are therefore deemed to be its primary beneficiary. In addition, at March 31, 2006, \$133.6 million (\$63.0 million at December 31, 2005) of our syndicated loans were financed and held on our Apidos CDO III warehouse facility. As a result, we consolidate Apidos CDO I and also consolidated Apidos CDO III as of March 31, 2006 and December 31, 2005, even though we do not yet own any of the equity of Apidos CDO III. We accrued interest income based on the contractual terms of the loans and recognized interest expense in accordance with the terms of the warehouse agreement in our consolidated statements of operations.

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The table below describes the terms of our syndicated bank loan investments as of March 31, 2006 and December 31, 2005 (dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	March 31, 2006		December 31, 2005	
	Amortized cost	Dollar price	Amortized cost	Dollar price
<b>Moody's ratings category:</b>				
Ba1 through Ba3	\$ 193,600	100.18%	\$ 155,292	100.24%
B1 through B3	277,865	100.21%	243,493	100.23%
Caa1 and through Caa3	256	102.40%	—	—%
<b>Total</b>	<b>\$ 471,721</b>	<b>100.20%</b>	<b>\$ 398,785</b>	<b>100.23%</b>
<b>S&amp;P ratings category:</b>				
BBB+ through BBB-	\$ 5,158	100.14%	\$ 15,347	100.20%
BB+ through BB-	180,496	100.17%	131,607	100.22%
B+ through B-	283,865	100.22%	246,335	100.24%
CCC+ through CCC-	1,202	99.42%	5,496	100.37%
No rating provided	1,000	100.00%	—	—%
<b>Total</b>	<b>\$ 471,721</b>	<b>100.20%</b>	<b>\$ 398,785</b>	<b>100.23%</b>
Weighted average rating factor	2,070		2,089	

**Equipment Leases and Notes**

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

	As of March 31, 2006	As of December 31, 2005
Direct financing leases	\$ 17,708	\$ 18,141
Notes receivable	43,831	5,176
<b>Total</b>	<b>\$ 61,539</b>	<b>\$ 23,317</b>

**Interest Receivable**

The amount of our interest receivable was largely unchanged at March 31, 2006 as compared to December 31, 2005. At March 31, 2006, we had interest receivable of \$10.6 million, which consisted of \$10.5 million of interest on our securities, loans and equipment leases and notes, \$24,000 of purchased interest that had been accrued on securities and loans purchased and \$160,000 of interest earned on escrow and sweep accounts. At December 31, 2005, we had interest receivable of \$9.5 million, which consisted of \$9.2 million of interest on our securities, loans and equipment leases and notes, \$172,000 of purchased interest that had been accrued when our securities and loans were purchased and \$98,000 of interest earned on escrow and sweep accounts.

**Other Assets**

Other assets at March 31, 2006 of \$2.2 million consisted primarily of \$1.0 million of proceeds to be received on syndicated loans sold, \$544,000 of loan origination costs associated with our revolving credit facility,

commercial real estate loan portfolio and secured term facility, \$471,000 of prepaid directors' and officers' liability insurance, \$87,000 of equipment lease and security deposit receivables, \$65,000 of prepaid costs associated with the structuring of our hedging transactions and \$8,000 of prepaid expenses.

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Other assets at December 31, 2005 of \$1.1 million, consisted primarily of \$89,000 of prepaid directors' and officers' liability insurance, \$1.2 million of prepaid costs, principally professional fees, associated with the preparation and filing with the SEC of a registration statement for our initial public offering and \$34,000 of prepaid costs associated with the structuring of our hedging transactions. These were partially offset by \$164,000 of deferred loan origination fees associated with our commercial real estate loan portfolio.

### *Hedging Instruments*

As of March 31, 2006 and December 31, 2005, we had entered into hedges with a notional amount of \$819.7 million and \$987.2 million, respectively. The decrease in notional amount was the result of the decreased size of the underlying hedged portfolio. Our hedges at March 31, 2006 and December 31, 2005 were fixed-for-floating interest rate swap agreements whereby we swapped the floating rate of interest on the liabilities we hedged for a fixed rate of interest. The maturities of these hedges range from May 2006 to September 2015 and April 2006 to June 2014, as of March 31, 2006 and December 31, 2005, respectively. At March 31, 2006 and December 31, 2005, the unrealized gain on our interest rate swap agreements was \$5.2 million and \$2.8 million, respectively. In an increasing interest rate environment, we expect that the fair value of our hedges will continue to increase. We intend to continue to seek such hedges for our floating rate debt in the future.

### *Repurchase Agreements*

We have entered into repurchase agreements to finance our agency RMBS and commercial real estate loans. These agreements are secured by our agency RMBS and commercial real estate loans and bear interest rates that have historically moved in close relationship to LIBOR. At March 31, 2006, we had established nine borrowing arrangements with various financial institutions and had utilized four of these arrangements, principally our arrangement with Credit Suisse Securities (USA) LLC. None of the counterparties to these agreements are affiliates of the Manager or us.

We seek to renew our repurchase agreements as they mature under the then-applicable borrowing terms of the counterparties to our repurchase agreements. Through March 31, 2006, we have encountered no difficulties in effecting renewals of our repurchase agreements.

At March 31, 2006, we had outstanding \$549.3 million of repurchase agreements secured by our agency RMBS with Credit Suisse Securities (USA) LLC, which was substantially lower than our December 31, 2005 outstanding balance of \$947.1 million, all of which matured in less than 30 days. This decrease resulted primarily from two events that occurred during the quarter ended March 31, 2006:

- the sale of approximately \$125.4 million of our agency RMBS portfolio and the corresponding reduction in debt associated with this sale; and
- the completion of transitioning our financing on 19 agency RMBS transactions, originally purchased and financed with Credit Suisse Securities (USA) LLC, to another counterparty, UBS Securities LLC, which is consistent with our strategy as previous discussed in our Annual Report on Form 10-K. This transition eliminates our exposure to same party transactions at March 31, 2006, as covered under SFAS 140.

The weighted-average current borrowing rates of repurchase agreements under this facility were 4.77% and 4.34% at March 31, 2006 and December 31, 2005, respectively. The repurchase agreements were secured by agency RMBS with an estimated fair value of \$570.5 million and \$975.3 million at March 31, 2006 and December 31, 2005, respectively, with weighted-average maturities of 22 days and 17 days, respectively. The net amount at risk, defined as the sum of the fair value of securities sold plus accrued interest income minus the sum of repurchase agreement liabilities plus accrued interest expense, was \$20.3 million and \$31.2 million at March 31, 2006 and December 31, 2005, respectively.



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At March 31, 2006, we had outstanding \$218.7 million of repurchase agreements secured by our agency RMBS with UBS Securities LLC with a weighted-average current borrowing rate of 4.79%, all of which matured in less than 30 days. At March 31, 2006, the repurchase agreements were secured by agency RMBS with an estimated fair value of \$225.7 million and a weighted-average maturity of 24 days. The net amount at risk was \$6.7 million at March 31, 2006. At December 31, 2005, we had no borrowings under repurchase agreements with UBS Securities LLC.

In August 2005, we also entered into a master repurchase agreement with Bear, Stearns International Limited to finance the purchase of commercial real estate loans. The maximum amount of our borrowing under the repurchase agreement is \$150.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At both March 31, 2006 and December 31, 2005, we had outstanding \$80.6 million of repurchase agreements with weighted average current borrowing rates of 5.88% and 5.51%, respectively, all of which matured in less than 30 days. At March 31, 2006, the repurchase agreements were secured by commercial real estate loans with an estimated fair value of \$116.9 million, which was largely unchanged from our estimated fair value of \$116.3 million at December 31, 2005. The repurchase agreements had weighted average maturities of 18 days and 17 days at March 31, 2006 and December 31, 2005, respectively. The net amount of risk was \$36.1 million and \$36.0 million at March 31, 2006 and December 31, 2005, respectively.

In December 2005, we entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch to finance the purchase of commercial real estate loans. The maximum amount of our borrowing under the repurchase agreement is \$300.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At March 31, 2006, we had outstanding \$67.2 million of repurchase agreements, which was substantially higher than the outstanding balance at December 31, 2005 of \$38.5 million, all of which matured in less than 30 days. This increase resulted from the purchase of two additional loans and two additional fundings on existing loan positions. The weighted average current borrowing rates were 6.04% and 5.68% at March 31, 2006 and December 31, 2005, respectively. At March 31, 2006 and December 31, 2005, the repurchase agreements were secured by commercial real estate loans with an estimated fair value of \$96.2 million and \$55.0 million, respectively, and had weighted average maturities of 18 days each. The net amount of risk was \$29.1 million and \$16.7 million at March 31, 2006 and December 31, 2005, respectively.

#### *Collateralized Debt Obligations*

As of March 31, 2006, we had executed two CDO transactions. In July 2005, we closed Ischus CDO II, a \$400.0 million CDO transaction that provided financing for mortgage-backed and other asset-backed securities. The investments held by Ischus CDO II collateralize \$376.0 million of senior notes issued by the CDO vehicle. In August 2005, we closed Apidos CDO I, a \$350.0 million CDO transaction that provided financing for syndicated bank loans. The investments held by Apidos CDO I collateralize \$321.5 million of senior notes issued by the CDO vehicle.

#### *Warehouse Facility*

In May 2005, we formed Apidos CDO III and began borrowing on a warehouse facility provided by Citigroup Financial Products, Inc. to purchase syndicated loans. At March 31, 2006, \$132.8 million was outstanding under the facility, which was substantially higher than the outstanding balance of \$63.0 million at December 31, 2005. This increase was due to the continued ramping of syndicated loans in connection with the May 2006 closing of Apidos CDO III. The facility bears interest at a rate of LIBOR plus 0.25%, which was 5.00% at March 31, 2006.

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### *Term Facility*

In March 2006, we entered into a secured term credit facility with Bayerische Hypo- und Vereinsbank AG, New York Branch to finance the purchase of equipment leases and notes. The maximum amount of our borrowing under this facility is \$100.0 million. At March 31, 2006, \$55.8 million was outstanding under the facility. The facility bears interest at one of two rates, determined by asset class.

- Pool A □ one-month LIBOR plus 110 basis points; or
- Pool B □ one-month LIBOR plus 80 basis points.

The interest rate was 6.23% at March 31, 2006.

### *Credit Facility*

In December 2005, we entered into a \$15.0 million corporate credit facility with Commerce Bank, N.A. The unsecured revolving credit facility permits us to borrow up to the lesser of the facility amount and the sum of 80% of the sum of our unsecured assets rated higher than Baa3 or better by Moody's and BBB- or better by Standard and Poor's plus our interest receivables plus 65% of our unsecured assets rated lower than Baa3 by Moody's and BBB- from Standard and Poor's. Up to 20% of the borrowings under the facility may be in the form of standby letters of credit. At March 31, 2006, no balance was outstanding under this facility.

### **Stockholders' Equity**

Stockholders' equity at March 31, 2006 was \$227.9 million and included \$19.7 million of net unrealized losses on securities classified as available-for-sale, offset by \$5.2 million of unrealized gains on cash flow hedges, shown as a component of accumulated other comprehensive loss. The unrealized losses consist of \$18.3 million of net unrealized losses on our agency RMBS portfolio and \$1.5 million of net unrealized losses on our non-agency RMBS, CMBS, and other ABS portfolio. Stockholders' equity at December 31, 2005 was \$195.3 million and included \$22.4 million of net unrealized losses on securities classified as available-for-sale, offset by \$2.8 million of unrealized gains on cash flow hedges, shown as a component of accumulated other comprehensive loss. The unrealized losses consist of \$12.9 million of net unrealized losses on our agency RMBS portfolio, \$9.4 million of net unrealized losses on our non-agency RMBS, CMBS, and other ABS portfolio and a \$30,000 unrealized loss on a private equity investment. The increase during the quarter ended March 31, 2006 was principally due to the completion of our initial public offering of 4,000,000 shares of our common stock (including 1,879,200 shares sold by certain selling stockholders) at a price of \$15.00 per share. The offering generated net proceeds of \$27.6 million after deducting underwriters' discounts and commissions and offering expenses.

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

[Back to Contents](#)**Estimated REIT Taxable Income**

Estimated REIT taxable income, which is a non-GAAP financial measure, is calculated according to the requirements of the Internal Revenue Code, rather than GAAP. The following table reconciles net income to estimated REIT taxable income for the three months ended March 31, 2006 and for the period from March 8, 2005 (date operations commenced) to March 31, 2005 (in thousands):

	<b>Three Months Ended March 31, 2006</b>	<b>Period from March 8, 2005 (date operations commenced) to March 31, 2005</b>
Net income (loss)	\$ 5,150	\$ (48)
Additions:		
Share-based compensation to related parties	582	209
Incentive management fee expense to related parties paid in shares	31	-
Capital losses from the sale of available-for-sale securities	1,412	-
Estimated REIT taxable income	<u>\$ 7,175</u>	<u>\$ 161</u>

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

**Liquidity and Capital Resources**

Through March 31, 2006, our principal sources of funds were the net proceeds from our March 2005 private placement, net proceeds from our February 2006 public offering, repurchase agreements totaling \$917.3 million, including accrued interest of \$1.5 million with a weighted average current borrowing rate of 4.96%, CDO financings totaling \$687.7 million with a weighted average current borrowing rate of 5.13%, warehouse agreements totaling \$132.8 million, with a weighted average current borrowing rate of 4.60% and an equipment leasing secured term facility totaling \$55.8 million, with a weighted average current borrowing rate of 6.23%. We expect to continue to borrow funds in the form of repurchase agreements to finance our agency RMBS and commercial real estate loan portfolios, through warehouse agreements to finance our non-agency RMBS, CMBS, other ABS, syndicated bank loans, trust preferred securities and private equity investments and through our secured term facility to finance our equipment leases and notes prior to the execution of CDOs and other term financing vehicles.

We held cash and cash equivalents of \$23.7 million at March 31, 2006. In addition, we held \$42.9 million of available-for-sale securities that had not been pledged as collateral under our repurchase agreements at March 31, 2006.

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We anticipate that, upon repayment of each borrowing under a repurchase agreement, we will immediately use the collateral released by the repayment as collateral for borrowing under a new repurchase agreement. We also anticipate that our borrowings under our warehouse credit facility will be refinanced through the issuance of CDOs. Our leverage ratio may vary as a result of the various funding strategies we use. As of March 31, 2006, our leverage ratio was 7.9 times. Our target leverage ratio is eight to 12 times.

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We have entered into master repurchase agreements with Credit Suisse Securities (USA) LLC, Barclays Capital Inc., J.P. Morgan Securities Inc., Countrywide Securities Corporation, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Bear, Stearns International Limited and UBS Securities LLC. As of March 31, 2006, we had \$549.3 million outstanding under our agreement with Credit Suisse Securities (USA) LLC and \$218.8 million outstanding under our agreement with UBS Securities LLC to finance our agency RMBS portfolio. Each such agreement is a standard form providing as follows:

- The parties may from time to time enter into repurchase transactions. The agreement for a repurchase transaction may be oral or in writing. None of the master repurchase agreements specifies a maximum amount for repurchase transactions with us.
- Each repurchase transaction will be entered into by agreement between the parties specifying the terms of the transaction, including identification of the assets subject to the transaction, sale price, repurchase price, rate, term and margin maintenance requirements.
- We must cover margin deficits by depositing cash or additional securities reasonably acceptable to our counterparty with it, but have the option to obtain payment from our counterparty of the amount by which the market value of the securities subject to a transaction exceeds the applicable margin amount for the transaction, either in cash or by delivery of securities.
- We are entitled to receive all income paid on or with respect to the securities subject to a transaction, provided that the counterparty may apply income received to reduce our repurchase price.

It is an event of default under the agreement if:

- we fail to transfer or our counterparty fails to purchase securities after we reach an agreement with respect to a particular transaction;
  - either party fails to comply with the margin and margin repayment requirements;
  - the counterparty fails to pay to us or credit us with income from the securities subject to a transaction;
  - either party commences a proceeding or has a proceeding commenced against it, under any bankruptcy, insolvency or similar laws; or
  - either party shall admit its inability to, or intention not to, perform any of its obligations under the master repurchase agreement.
- Upon an event of default, the non-defaulting party may accelerate the repurchase date for the transaction and all income paid upon the securities will belong to the non-defaulting party. If we are the defaulting party, our counterparty may sell the securities or give us credit for the value of the securities on the date of default, and we would remain liable for any deficit. If our counterparty is the defaulting party, we may purchase replacement securities, or elect to be deemed to have purchased replacement securities, with our counterparty being liable for the cost of the replacement securities or the amount by which the deemed repurchase price exceeds the stated repurchase price. We may also, by tender of the repurchase price, be deemed to have the securities automatically transferred to us. The defaulting party will also be liable to the non-defaulting party for all costs, expenses and damages, including the costs of entering into or terminating hedge transactions, of the non-defaulting party, plus interest at the rate specified in the repurchase agreement.

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

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

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

- we fail to maintain a minimum net asset value of \$100 million;
- the Manager ceases to be our manager;
- we fail to qualify as a REIT; or
- we fail to deliver specified documents, including financial statements or financial information due annually, quarterly or monthly, or an estimate of net asset values.

We have also entered into a master repurchase agreement with Bear, Stearns International Limited to finance our commercial real estate loan portfolio. As of March 31, 2006, we had \$80.6 million outstanding under this agreement. The agreement provides as follows:

- Bear, Stearns International Limited, in its sole discretion, will purchase assets from us, and will transfer those assets back to us at a particular date or on demand;
- the maximum aggregate amount of outstanding repurchase transactions is \$150.0 million;
- each repurchase transaction will be entered into by agreement between the parties specifying the terms of the transaction, including identification of the assets subject to the transaction, sale price, repurchase price, rate, term and margin maintenance requirements; and
- if we control the servicing of the purchased assets, we must service the assets for the benefit of Bear, Stearns International Limited.

It is an event of default under the agreement if:

- Bear, Stearns International Limited is not granted a first priority security interest in the assets;
- we fail to repurchase securities, we fail to pay any price differential or we fail to make any other payment after we reach an agreement with respect to a particular transaction;
- any governmental or regulatory authority takes any action materially adverse to our business operations;
- Bear, Stearns International Limited determines, in good faith,
  - that there has been a material adverse change in our corporate structure, financial condition or creditworthiness;
  - that we will not meet or we have breached any of our obligations; or
  - that a material adverse change in our financial condition may occur due to pending legal actions;
- we have commenced a proceeding, or had a proceeding commenced against us, under any bankruptcy, insolvency, reorganization or similar laws;
- we make a general assignment for the benefit of creditors;
- we admit in writing our inability to pay our debts as they become due;
- we have commenced a proceeding, or had a proceeding commenced against us, under the provisions of the Securities Investor Protection Act of 1970, which we consent to or do not timely contest and which results in the entry of an order for relief, or is not dismissed within 15 days;
- a final judgment is rendered against us in an amount greater than \$1.0 million and remains undischarged or unpaid for 90 days;

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- we have defaulted or failed to perform under any other note, indenture, loan, guaranty, swap agreement or any other contract to which we are a party which results in:
  - a final judgment involving the failure to pay an obligation in excess of \$1.0 million or
  - a final judgment permitting the acceleration of the maturity of obligations in excess of \$1.0 million by any other party to or beneficiary of such note, indenture, loan, guaranty, swap agreement or any other contract; or

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

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

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

- permit our net worth at any time to be less than the sum of 80% of our net worth on the date of the agreement and 75% of the amount received by us in respect of any equity issuance after the date of the agreement;
- permit our net worth to decline by more than 15% in any calendar quarter or more than 30% during any trailing consecutive twelve month period;
- permit our ratio of total liabilities to net worth to exceed 14:1; or
- permit our consolidated net income, determined in accordance with GAAP, to be less than \$1.00 during the period of any four consecutive calendar months.

We have also entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch, an affiliate of Deutsche Bank Securities, Inc. to finance our commercial real estate loan portfolio. As of March 31, 2006, we had \$67.2 million outstanding under this agreement. The agreement provides as follows:

- Deutsche Bank will purchase assets from us and will transfer those assets back to us on a particular date;
- the maximum aggregate amount of outstanding repurchase is \$300.0 million;
- each repurchase transaction will be entered into by written agreement between the parties including identification of the assets subject to the transaction, sale price, repurchase price, rate, term and margin maintenance requirements; and
- we must cover margin deficits by depositing cash or additional securities acceptable to Deutsche Bank in its sole discretion.

It is an event of default under the agreement if:

- we fail to repurchase or Deutsche Bank fails to transfer assets after we reach an agreement with respect to a particular transaction;
- any governmental, regulatory, or self-regulatory authority takes any action with has a material adverse effect on our financial condition or business;
- we have commenced a proceeding under any bankruptcy, insolvency, reorganization or similar laws;
- we have commenced a proceeding, or had a proceeding commenced against us, under the provisions of the Securities Investor Protection Act of 1970, which we consent to or do not timely contest, results in the entry of an order for relief, or is not dismissed within 60 days;

- we make a general assignment for the benefit of creditors;
- we admit in writing our inability to pay our debts as they become due;
- a final judgment is rendered against us in an amount greater than \$5.0 million and remains unpaid for a period of 60 days;
- we have defaulted or failed to perform under any note, indenture, loan agreement, guaranty, swap agreement or any other contract agreement or transaction to which we are a party which results in:
  - the failure to pay a monetary obligation in excess of \$1 million or
  - the acceleration of the maturity of obligations in excess of \$1 million by any other party to a note, indenture, loan agreement, guaranty, swap agreement or other contract agreement; or

- we breach or fail to perform under the repurchase agreement.

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

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

We have a warehouse facility with Citigroup Financial Products, Inc. pursuant to which it will provide up to \$200.0 million of financing for the acquisition of syndicated bank loans to be sold to Apidos CDO III. At March 31, 2006, approximately \$132.8 million had been funded through the facility at a weighted average interest rate of 4.60%.

In December 2005, we entered into a \$15.0 million corporate credit facility with Commerce Bank, N.A. At March 31, 2006, no borrowings were outstanding under this facility.

In March 2006, we entered into a \$100.0 million secured term credit facility with Bayerische Hypo und Vereinsbank AG, New York Branch to finance the purchase of equipment leases and notes. At March 31, 2006, we had \$55.8 million outstanding under the facility.

Our liquidity needs consist principally of funds to make investments, make distributions to our stockholders and pay our operating expenses, including our management fees. Our ability to meet our liquidity needs will be subject to our ability to generate cash from operations and, with respect to our investments, our ability to obtain additional debt financing and equity capital. Through March 31, 2006, we have not experienced difficulty utilizing any of our repurchase agreements. We may increase our capital resources through offerings of equity securities (possibly including common stock and one or more classes of preferred stock), CDOs or other forms of term financing. Such financing will depend on market conditions. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, we may be unable to implement our investment strategies successfully and may be required to liquidate portfolio investments. If required, a sale of portfolio investments could be at prices lower than the carrying value of such assets, which would result in losses and reduced income.

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

During the quarter ended March 31, 2006, we declared a dividend of \$5.9 million or \$0.33 per common share, which was paid on April 10, 2006 to stockholders of record as of March 27, 2006.





[Back to Contents](#)**Contractual Obligations and Commitments**

The table below summarizes our contractual obligations as of March 31, 2006. The table below excludes contractual commitments related to our derivatives, which we discuss in “Quantitative and Qualitative Disclosures about Market Risk,” and the management agreement that we have with our Manager, because those contracts do not have fixed and determinable payments.

	<b>Contractual commitments (dollars in thousands)</b>				
	Payments due by period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Repurchase agreements <sup>(1)</sup>	\$ 917,293	\$ 917,293	\$ –	\$ –	\$ –
Warehouse agreements	132,793	132,793	–	–	–
CDOs	687,686	–	–	–	687,686
Equipment leasing secured term facility	55,767	–	–	55,767	–
Base management fees <sup>(2)</sup>	3,693	3,693	–	–	–
<b>Total</b>	<b>\$ 1,797,232</b>	<b>\$ 1,053,779</b>	<b>\$ –</b>	<b>\$ 55,767</b>	<b>\$ 687,686</b>

(1) Includes accrued interest of \$1.5 million.

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

At March 31, 2006, we had eight interest rate swap contracts with a notional value of \$804.7 million. These contracts are fixed-for-floating interest rate swap agreements under which we contracted to pay a fixed rate of interest for the term of the hedge and will receive a floating rate of interest. As of March 31, 2006, the average fixed pay rate of our interest rate hedges was 4.22% and our receive rate was one-month and three-month LIBOR, or 4.73%.

At March 31, 2006, we also had one interest rate cap with a notional value of \$15.0 million. This cap reduces our exposure to the variability in future cash flows attributable to changes in LIBOR.

**Off-Balance Sheet Arrangements**

As of March 31, 2006, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or contractually narrow or limited purposes. Further, as of March 31, 2006, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide additional funding to any such entities.

**Recent Developments**

On March 16, 2006, our board of directors declared a quarterly distribution of \$0.33 per share of common stock, \$5.9 million in the aggregate, which will be paid on April 10, 2006 to stockholders of record as of March 27, 2006.

On May 9, 2006, the Apidos CDO III warehouse facility terminated and approximately \$222.6 million of syndicated loan assets were transferred into a collateralized debt obligation structure in which we purchased a

\$23.0 million equity interest representing 100% of the outstanding preference shares.

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## **Critical Accounting Policies and Estimates**

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

### *Classifications of Investment Securities*

Statement of Financial Accounting Standards, or SFAS, No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires us to classify our investment portfolio as either trading investments, available-for-sale investments or held-to-maturity investments. Although we generally plan to hold most of our investments to maturity, we may, from time to time, sell any of our investments due to changes in market conditions or in accordance with our investment strategy. Accordingly, SFAS No. 115 requires us to classify all of our investment securities as available-for-sale. We report all investments classified as available-for-sale at fair value, based on market prices provided by dealers, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of March 31, 2006, we had aggregate unrealized losses on our available-for-sale securities of \$21.3 million, which if not recovered, may result in the recognition of future losses.

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

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

### *Repurchase Agreements*

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



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In certain circumstances, we have purchased debt investments from a counterparty and subsequently financed the acquisition of those debt investments through repurchase agreements with the same counterparty. We currently record the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated income statements. However, under a certain technical interpretation FASB Statement No. 140, or SFAS 140, such transactions may not qualify as a purchase by us. We believe, and it is industry practice, that we are accounting for these transactions in an appropriate manner. However, the result of this technical interpretation would prevent us from presenting the debt investments and repurchase agreements and the related interest income and interest expense on a gross basis on our financial statements. Instead, we would present the net investment in these transactions with the counterparty and a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of March 31, 2006, the Company had no transactions in mortgage backed securities where debt instruments were financed with the same counterparty.

#### *Interest Income Recognition*

We accrue interest income on our MBS, commercial real estate loans, other ABS, syndicated bank loans, equipment leases and notes and private equity investments using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. We amortize or accrete into interest income premiums and discounts over the lives of the investments also using the effective yield method (or a method that approximates effective yield), adjusted for the effects of estimated prepayments based on SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." For investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires that we make estimates of future prepayment rates for our investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that we use directly impact the estimated remaining lives of our investments. We review and adjust our prepayment estimates as of each quarter end or more frequently if we become aware of any material information that would lead us to believe that an adjustment is necessary. If our estimate of prepayments is incorrect, we may have to adjust the amortization or accretion of premiums and discounts, which would have an impact on future income.

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

If we experience material differences between our projected prepayment rates and the actual prepayment rates that we realize, the remaining estimated lives of our investments may change and result in greater earnings volatility and/or lower net income than originally estimated. We may mitigate this risk by minimizing the amount of purchase premium and purchase discount on our investment portfolio and by purchasing investments where the underlying borrowers have no or fewer prepayment options. As of March 31, 2006, the aggregate amount of unamortized purchase premium on our RMBS portfolio totaled approximately \$1.4 million and the aggregate amount of unamortized purchase discount totaled approximately \$3.7 million. Net purchase discount and purchase premium accretion totaled approximately \$229,000 for the three months ended March 31, 2006.

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

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

As of March 31, 2006, we had engaged in eight interest rate swaps and one interest rate cap with a notional value of \$819.7 million and a fair value of \$5.0 million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. The contracts we have entered into have been designated as cash flow hedges and are evaluated at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. A hedge instrument is highly effective if changes in the fair value of the derivative provide an offset to at least 80% and not more than 125% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged. The futures and interest rate swap contracts are carried on the consolidated balance sheets at fair value. Any ineffectiveness which arises during the hedging relationship must be recognized in interest expense during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gain and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on futures contracts are reclassified into earnings as an adjustment to interest expense during the specified hedge time period. Realized gains and losses on the interest rate hedges are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap. For REIT taxable income purposes, realized gains and losses on futures and interest rate cap and swap contracts are reclassified into earnings over the term of the hedged transactions as designated for tax.

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

### *Income Taxes*

We expect to operate in a manner that will allow us to qualify and be taxed as a REIT and to comply with the provisions of the Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income which is distributed to its stockholders, provided, that at least 90% of Taxable Income is distributed and certain other requirements are met. If we fail to meet these requirements and does not qualify for certain statutory relief provisions, it would be subject to federal income tax. We have a wholly-owned domestic subsidiary, Resource TRS, that we and Resource TRS have elected to be treated as a taxable REIT subsidiary. For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by the us with respect to our interest in Resource TRS, a domestic taxable REIT subsidiary, because it is taxed as a regular subchapter C corporation under the provisions of the Code. As of March 31, 2006, Resource TRS did not have any taxable income. Apidos CDO I, our foreign taxable REIT subsidiary is organized as an exempted company incorporated with limited liability under the laws of the Cayman Islands, and is generally exempt from federal and state income tax at the corporate level because its activities in the United States are limited to trading in stock and securities for its own account. Therefore, despite its status as a taxable REIT subsidiary, it generally will not be subject to corporate tax on its earnings and no provision from income taxes is required; however because it is a "controlled foreign corporation," we will generally be required to include its current taxable income in our calculation of REIT taxable income. We also intend to make an election to treat Apidos CDO III as a taxable REIT subsidiary.

### *Loans*

Our investments in corporate leveraged loans and commercial real estate loans are held for investment and, therefore, we record them on our consolidated balance sheets initially at their purchase price less any origination fees applied at closing and subsequently account for them based on their outstanding principal plus or minus

unamortized premiums or discounts. In certain instances when the credit fundamentals underlying a particular loan have changed in such a manner that our expected return on investment may decrease, we may sell a loan held for investment. Since the determination has been made that we will no longer hold the loan for investment, we will identify these loans as "loans held for sale" and will account for these loans at the lower of amortized cost or market value.



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*Direct Financing Leases and Notes*

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

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### *Loan Interest Income Recognition*

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

### *Stock Based Compensation*

Pursuant to our 2005 Stock Incentive Plan, we granted 345,000 shares of restricted stock and options to purchase 651,666 shares of common stock to the Manager. Holders of the restricted shares have all of the rights of a stockholder, including the right to vote and receive dividends. We account for the restricted stock and stock options granted in accordance with the consensus in Issue 1 of EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," and SFAS No. 123, "Accounting for Stock-Based Compensation." During 2006, we continued to apply the provisions of EITF 96-18, but effective January 1, 2006, we also adopted the provisions of SFAS No. 123(R) [Share-Based Payment] (SFAS No. 123(R)), which revises SFAS No. 123. Under SFAS No. 123(R), our compensation expense for options is accounted for using a fair-value-based method with the (non-cash) compensation expense being recorded in the financial statements over the vesting period. We elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and, therefore, have not restated financial results for prior periods. The adoption of SFAS No. 123(R) did not have any significant impact on prior periods. In accordance with EITF 96-18, we recorded the stock and options in stockholders' equity at fair value through an increase to additional paid-in-capital and an off-setting entry to deferred equity compensation (a contra-equity account). We will amortize the deferred compensation over a three year graded vesting period with the amortization expense reflected as equity compensation expense. The unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. We reflect change in fair value in stockholders' equity in the equity compensation expense recognized in that quarter and in future quarters until the stock and options are fully vested.

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

### *Incentive Compensation*

Our management agreement with the Manager also provides for incentive compensation if our financial performance exceeds certain benchmarks. Under the management agreement, the incentive compensation will be paid up to 75% in cash and at least 25% in stock. The cash portion of the incentive fee is accrued and expensed during the period for which it is calculated and earned. In accordance with SFAS No. 123(R) and EITF 96-18, the restricted stock portion of the incentive fee is also accrued and expensed during the period for which it is calculated and earned. Shares granted in connection with the incentive fee will vest immediately. For the three months ended March 31, 2006, the Manager earned an incentive management fee of \$113,000.

### **Variable Interest Entities**

In December 2003, the Financial Accounting Standards Board, or FASB, issued FIN 46-R. FIN 46-R addresses the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to a VIE and requires that the assets, liabilities and results of operations of a VIE be consolidated into the financial statements of the enterprise that has a controlling financial interest in it. The interpretation provides a framework for determining whether an entity should be evaluated for consolidation based on voting interests or significant financial support provided to the entity which we refer to as variable interests. We considers all counterparties to a transaction to determine whether a counterparty is a VIE and, if so, whether our involvement with the entity results in a

variable interest in the entity. If we determine that we have a variable interest in the entity, we perform analysis to determine whether we are the primary beneficiary. As of March 31, 2006, we determined that Ischus CDO II, Apidos CDO I and Apidos CDO III were VIEs and that we were the primary beneficiary of the VIEs. We own 100% of the equity interests of Ischus CDO II and Apidos CDO I and have provided a guarantee of the first \$20.0 million in losses on the portfolio of bank loans financed by the Apidos CDO III warehouse agreement. Accordingly, we consolidated these entities.

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## **Inflation**

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

## **Quantitative and Qualitative Disclosures about Market Risk**

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

### *Interest Rate Risk*

We are subject to interest rate risk in conjunction with our investments in fixed rate, adjustable rate and hybrid adjustable rate agency RMBS and our related debt obligations, which, as of March 31, 2006, were generally repurchase agreements of limited duration that are periodically refinanced at current market rates, and our derivative contracts.

### *Effect on Net Interest Income*

We invest in hybrid adjustable-rate agency RMBS. Hybrid adjustable-rate agency RMBS have interest rates that are fixed for the first few years of the loan (typically three, five, seven or 10 years) and thereafter their interest rates reset periodically on the same basis as adjustable-rate agency RMBS. We compute the projected weighted-average life of our hybrid adjustable-rate agency RMBS based on the market's assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. When we acquire a hybrid adjustable-rate agency RMBS with borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related agency RMBS. This strategy is designed to protect us from rising interest rates because the borrowing costs are fixed for the duration of the fixed-rate portion of the related RMBS. However, if prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate portion of the related RMBS could extend beyond the term of the swap agreement or other hedging instrument. This situation could negatively impact us as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the hybrid adjustable-rate agency RMBS would remain fixed. This results in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. This situation may also cause the market value of our hybrid adjustable-rate agency RMBS to decline with little or no offsetting gain from the related hedging transactions. In certain situations, we may be forced to sell assets and incur losses to maintain adequate liquidity.

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

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

interest rates, which would negatively impact our financial condition, cash flows and results of operations.

*Interest Rate Mismatch Risk*

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

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

*Prepayment Risk*

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

*Effect on Fair Value*

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

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

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

<b>March 31, 2006</b>		
<b>Interest rates fall 100 basis points</b>	<b>Unchanged</b>	<b>Interest rates rise 100 basis points</b>

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Hybrid adjustable-rate agency RMBS and other ABS <sup>(1)</sup>			
Fair value	\$ 897,414	\$ 872,485	\$ 849,248
Change in fair value	\$ 24,929	\$ □	\$ (23,237)
Change as a percent of fair value	2.86%	□	2.66%

Repurchase and warehouse agreements <sup>(2)</sup>			
Fair value	\$ 1,105,853	\$ 1,105,853	\$ 1,105,853
Change in fair value	\$ □	\$ □	\$ □
Change as a percent of fair value	□	□	□

Hedging instruments			
Fair value	\$ (10,581)	\$ 4,985	\$ 10,095
Change in fair value	\$ (15,566)	\$ □	\$ 5,110
Change as a percent of fair value	n/m	□	n/m

December 31, 2005

	Interest rates fall 100 basis points	Unchanged	Interest rates rise 100 basis points
Hybrid adjustable-rate agency RMBS and other ABS <sup>(1)</sup>			
Fair value	\$ 1,067,628	\$ 1,038,878	\$ 1,011,384
Change in fair value	\$ 28,750	\$ □	\$ (27,494)
Change as a percent of fair value	2.77%	□	2.65%
Repurchase and warehouse agreements <sup>(2)</sup>			
Fair value	\$ 1,131,238	\$ 1,131,238	\$ 1,131,238
Change in fair value	\$ □	\$ □	\$ □
Change as a percent of fair value	□	□	□
Hedging instruments			
Fair value	\$ (4,651)	\$ 3,006	\$ 4,748
Change in fair value	\$ (7,657)	\$ □	\$ 1,742
Change as a percent of fair value	n/m	□	n/m

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

(2) The fair value of the repurchase agreements and warehouse agreements would not change materially due to the short-term nature of these instruments.

For purposes of the tables, we have excluded our investments with variable interest rates that are indexed to LIBOR. Because the variable rates on these instruments are short-term in nature, we are not subject to material exposure to movements in fair value as a result of changes in interest rates.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points from current levels. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

*Risk Management*

To the extent consistent with maintaining our status as a REIT, we seek to manage our interest rate risk exposure to protect our portfolio of RMBS and related debt against the effects of major interest rate changes. We generally seek to manage our interest rate risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our mortgage-backed securities and our borrowings;
- attempting to structure our borrowing agreements for our RMBS to have a range of different maturities, terms, amortizations and interest rate adjustment periods; and
- using derivatives, financial futures, swaps, options, caps, floors and forward sales, to adjust the interest rate sensitivity of our RMBS and our borrowing.

[Back to Contents](#)**BUSINESS****Our Company**

We are a specialty finance company that intends to qualify and will elect to be taxed as a REIT for federal income tax purposes commencing with our taxable year ending December 31, 2005. 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 intend to invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We intend to finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

Our investments will target the following asset classes:

<b>Asset class</b>	<b>Principal investments</b>
Commercial real estate-related assets	<input type="checkbox"/> CMBS <input type="checkbox"/> A notes <input type="checkbox"/> B notes <input type="checkbox"/> Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party financing
Residential real estate-related assets	<input type="checkbox"/> Agency RMBS <input type="checkbox"/> Non-agency RMBS
Commercial finance assets	<input type="checkbox"/> Syndicated bank loans <input type="checkbox"/> Other ABS, backed principally by small business and syndicated bank loans and, to a lesser extent, by consumer receivables <input type="checkbox"/> Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes <input type="checkbox"/> Trust preferred securities of financial institutions <input type="checkbox"/> Private equity investments, principally issued by financial institutions

We use multiple strategies to finance our investment portfolio. In our non-agency RMBS, CMBS, other ABS, syndicated bank loans, equipment lease and trust preferred asset classes, we intend to use warehouse facilities as a short-term financing source before the execution of CDOs or other term financing secured by these assets. In our commercial real estate loan portfolio, we intend to use repurchase agreements as a short-term financing source and CDOs and other term financing as a long-term financing source. We finance our agency RMBS portfolio with short-term repurchase arrangements. We seek to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency RMBS and the maturities and repricing dates of the repurchase agreements we use to finance them through derivative instruments, principally floating to fixed interest rate swap agreements.

Our investment portfolio as of March 31, 2006 reflects our investment of the \$214.8 million of net proceeds from our March 2005 private offering and substantially all of the \$27.6 million we raised in our February 2006 initial public offering. We intend to diversify our portfolio over our targeted asset classes during the next 12 months as follows: between 20% and 25% in commercial real estate-related assets, between 25% and 30% in agency RMBS, between 15% and 20% in non-agency RMBS, and between 30% and 35% in commercial finance assets, subject to the availability of appropriate investment opportunities and changes in market conditions. We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. Credit quality refers to the probability that a loan will be repaid in a timely manner. In general, as credit quality decreases, yields increase to compensate for increased default risk.



If we are unable to maintain the credit quality of our portfolio, we will be subject to increased default risk, including the risk of payment defaults. If we experience payment defaults, our revenues will be reduced and our costs,

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particularly costs we incur to enforce our rights with respect to defaulting assets, may increase, thereby reducing our earnings. Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes.

We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. Investing in multiple asset classes does not, however, reduce or eliminate many of the risks associated with our investment portfolio such as geographic concentration risk and credit risk. We may change our investment strategies and policies, and the percentage of assets that may be invested in each asset class, without a vote of our stockholders.

Because we will elect and intend to qualify to be taxed as a REIT and to operate our business so as to be excluded from regulation under the Investment Company Act, we are required to invest a substantial majority of our assets in qualifying real estate assets, such as agency RMBS, B notes with unilateral foreclosure rights on the underlying mortgages, mortgage loans and other liens on and interests in real estate. Therefore, the percentage of our assets we may invest in other MBS, other B notes, mezzanine debt, other ABS, syndicated bank loans, equipment leases and notes, trust preferred securities, private equity and other types of investments is limited, unless those investments comply with federal income tax requirements for REIT qualification and requirements for exclusion from Investment Company Act regulation.

Our income is generated primarily from the net interest spread, or the difference between the interest income we earn on our investment portfolio and the cost of financing our investment portfolio, which includes the interest expense, fees, and related expenses that we pay on our borrowings and the cost of the interest rate hedges that we use to manage our interest rate risk.

### Our Investment Portfolio

As of March 31, 2006, our investment portfolio consisted of the following (dollars in thousands):

	<u>Amortized cost</u>	<u>Estimated fair value</u>	<u>Percent of our total investments<sup>(1)</sup></u>	<u>Weighted average coupon<sup>(1)</sup></u>
<b>Commercial real estate-related assets</b>				
CMBS	\$ 27,964	\$ 27,015	1.37%	5.45%
A notes	20,000	20,000	1.01%	5.97%
B notes	136,262	136,262	6.89%	8.21%
Mezzanine loans	55,925	55,925	2.83%	8.24%
	<u>240,151</u>	<u>239,202</u>	<u>12.10%</u>	<u>7.72%</u>
<b>Total commercial real estate-related assets</b>				
	<u>240,151</u>	<u>239,202</u>	<u>12.10%</u>	<u>7.72%</u>
<b>Residential real estate-related assets</b>				
Agency RMBS	853,536	835,276	42.26%	4.54%
Non-agency RMBS	345,038	344,709	17.44%	5.93%
	<u>1,198,574</u>	<u>1,179,985</u>	<u>59.70%</u>	<u>5.03%</u>
<b>Total residential real estate-related assets</b>				
	<u>1,198,574</u>	<u>1,179,985</u>	<u>59.70%</u>	<u>5.03%</u>
<b>Commercial finance assets</b>				
Syndicated bank loans	471,721	474,580	24.01%	6.73%
Other ABS	21,558	21,358	1.08%	6.07%
Equipment leases and notes	61,539	61,539	3.11%	8.76%
	<u>554,818</u>	<u>557,477</u>	<u>28.20%</u>	<u>7.52%</u>

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Total commercial finance assets	554,818	557,477	28.20%	6.93%
	<u>          </u>	<u>          </u>	<u>          </u>	
Total	\$ 1,993,543	\$ 1,976,664	100.00%	5.89%
	<u>          </u>	<u>          </u>	<u>          </u>	

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(1) Based on estimated fair value.

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The table below summarizes our borrowings as of March 31, 2006 (dollars in thousands):

	<u>Repurchase agreements<sup>(1)</sup></u>	<u>CDOs<sup>(2)</sup></u>	<u>Warehouse facility</u>	<u>Unsecured revolving credit facility</u>	<u>Secured term facility</u>	<u>Total</u>
Outstanding borrowings	\$ 917,293	\$ 687,686	\$ 132,793	\$ □	\$ 55,767	\$ 1,793,539
Weighted-average borrowing rate	4.96%	5.13%	4.60%	N/A	6.23%	5.04%
Weighted-average remaining maturity	22 days	23.8 years	39 days	2.8 years	4.1 years	

(1) Includes accrued interest of \$1.5 million.

(2) Amount represents principal outstanding of \$697.5 million less unamortized issuance costs of \$9.8 million.

### Business Strengths

*Experienced senior management team.* Our senior management team, led by Edward E. Cohen and Jonathan Z. Cohen, has significant experience in real estate investment, commercial lending, financing, securitization, capital markets, transaction structuring and risk management. Individually and through their involvement with Resource America, they also have significant experience in sponsoring and managing public companies in the real estate, financial services and energy sectors, including the sponsorship of a REIT, RAIT Investment Trust (NYSE: RAS), for which Jonathan Z. Cohen serves as Vice Chairman and a member of the investment committee. We believe that the broad experience of our executive officers will enable us to generate investment opportunities across all of our targeted asset classes and effectively manage and finance our portfolio. Before its experience in managing us, the Manager had not managed a REIT.

*Deep experience in targeted asset classes.* Through the Manager and Resource America, we have access to a team of 64 investment professionals that has broad experience originating, investing in, managing and financing commercial and residential real estate-related assets and commercial finance assets. We believe that their deep experience in these areas will enable us to achieve our portfolio objectives.

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

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

*Significant experience in asset-liability management.* Since 2002, Resource America has sponsored 16 CDOs with approximately \$6.5 billion in assets on a cost basis, including three of our CDOs, Ischus CDO II, Apidos CDO I and Apidos CDO III, which financed over \$954.4 million of our assets. In addition, Resource America's professionals have significant experience in using hedging instruments to manage the interest rate risk associated with the asset classes we invest in, and managed \$804.7 million in notional amount of interest rate swaps and an interest rate cap agreement with a notional amount of \$15.0 for us as of March 31, 2006.

### Business Strategy

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Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while managing the risks associated with our investment strategy. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives. We intend to achieve this objective by constructing a diversified investment portfolio, using our disciplined

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approach to credit analysis to identify appropriate opportunities in our targeted asset classes. The Manager intends to apply its credit-based investment strategies to selecting investments in the following general asset classes: commercial real estate-related investments, residential real estate-related investments and commercial finance assets. We expect our agency RMBS to provide us with a stable foundation where our credit risk will be limited and we can manage our interest rate exposure. We expect our other investments to provide enhanced returns and limited interest rate risk. The core components and values of our business strategy are described in more detail below.

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

*Investment in higher-yielding assets.* A portion of our portfolio is and will be comprised of assets such as mezzanine loans, A notes, B notes, RMBS and CMBS rated below AAA, and syndicated bank loans, which generally have higher yields than more senior obligations or agency RMBS.

*Diversification of investments.* We complement our investments in residential real estate-related assets with commercial real estate-related assets such as mezzanine loans, A notes, B notes and CMBS, and commercial finance assets such as syndicated bank loans, equipment leases and notes and trust preferred investments. We believe that this strategy of diversifying our portfolio assets will allow us to continually allocate our capital to the most attractive sectors, enhancing the returns we will be able to achieve, while reducing the overall risk of our portfolio through the non-correlated nature of these various asset classes. The percentage of assets that we may invest in certain of our targeted asset classes is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from Investment Company Act regulation.

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

*Active management of interest rate risk and liquidity risk.* We expect to finance a substantial portion of our portfolio investments on a long-term basis through borrowing strategies that seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. These strategies allow us to mitigate our interest rate risk and liquidity risk, resulting in more stable and predictable cash flows and will include the use of CDOs structured for us by the Manager. We will retain the equity portion of the CDO and can retain one or more series of the subordinated obligations issued by the CDO. We also use derivative instruments such as interest rate swaps to hedge the borrowings we use to finance our assets on a short-term basis. We intend to maintain borrowing arrangements with multiple counterparties in order to manage the liquidity risk associated with our short-term financing.

### **Investment Strategy**

We seek to implement our business strategies in each of our targeted asset classes as described in this section. We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. We may change our investment strategies, policies and guidelines and the percentage of our assets that may be invested in each asset class or, in the case of securities, in a single issuer, without a vote of our stockholders.

[Back to Contents](#)**Commercial Real Estate-Related Investments**

CMBS. We invest in CMBS, which are securities that are secured by or evidence interests in a pool of mortgage loans secured by commercial properties. These securities may be senior or subordinate and may be either investment grade or non-investment grade. We expect that the majority of our CMBS investments will be rated by at least one nationally recognized rating agency.

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

As of March 31, 2006, \$27.0 million on a fair value basis (\$28.0 million on an amortized cost basis), or 1.37% of our total investments, consisted of CMBS. We expect that CMBS will decrease to 1% or less of our total investments in the next 12 months as we diversify our investments. The table below describes the terms of our CMBS (unaudited, dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	<u>Amortized cost</u>	<u>Dollar price</u>
<b>Moody's ratings category:</b>		
Baa1 through Baa3	\$ 27,964	98.68%
Total	\$ 27,964	98.68%
<b>S&amp;P ratings category:</b>		
BBB+ through BBB-	\$ 12,215	99.01%
No rating provided	\$ 15,749	98.43%
Total	\$ 27,964	98.68%
Weighted average rating factor	346	

As of March 31, 2006, our investments in CMBS were leveraged 13.9 times. In general, after financing our CMBS through CDOs or other term financing, we expect our leverage for this asset class to be in the range of 10 to 15 times.

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

As of March 31, 2006 we held one A note with a fair value of \$20.0 million, or 1.01% of our total investments. The loan had an original weighted average LTV ratio of 45.0%. These investments are consistent with our strategic target for this asset class.

*Subordinate interests in whole loans (B notes).* We invest in subordinate interests in whole loans, referred to as B notes either directly originated or purchased from third parties. B notes are loans secured by a first mortgage and subordinated to a senior interest, referred to as an A note. The subordination of a B note is generally evidenced by a co-lender 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. Our B note investments are expected to have LTVs of between 60% and 90%. Typical B note investments will have terms of three years to five years, and are generally structured with an original term of up to three years, with one year extensions that bring the loan to a maximum term of five years. We expect to hold our B note investments to their maturity.

In addition to the interest payable on the B note, we may earn fees charged to the borrower under the note or additional income by receiving principal payments in excess of the discounted price (below par value) we paid to acquire the note. Our ownership of a B note with controlling class rights may, in the event the financing fails to perform according to its terms, cause us to elect to pursue our remedies as owner of the B



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note, which may include foreclosure on, or modification of, the note. In some cases the owner of the A note may be able to foreclose or modify the note against our wishes as owner of the B note. As a result, our economic and business interests may diverge from the interests of the owner of the A note.

As of March 31, 2006, we held eight B notes with a fair value and an amortized cost of \$136.3 million, or 6.89% of our total investments. We expect that B notes will increase to between 18% and 20% of our total investments in the next 12 months as we diversify our investments. The leverage we used for our B notes investments was 2.2 times. The loans bear interest at a floating rate of LIBOR plus a weighted average spread of 348 bps and mature between January 2007 and April 2008. In general, we expect to leverage our investments in B notes in the range of two to six times.

*Mezzanine financing.* We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Our mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. Our mezzanine investments are expected to have LTVs between 70% and 85%. We expect the stated maturity of our mezzanine financings to range from three to five years. Mezzanine loans may have maturities that match the maturity of the related mortgage loan but may have shorter or longer terms. We expect to hold these investments to maturity.

As of March 31, 2006, we held five floating rate mezzanine loans and one fixed rate mezzanine loan with a fair value and amortized cost of \$55.9 million, or 2.83% of our total investments. Four of the floating rate loans bear interest at a floating rate of LIBOR plus a weighted average spread of 296 bps and mature between August 2007 and July 2008 and one floating rate loan bears interest at the 10-year Treasury rate plus 664 bps and matures January 2016. The fixed rate loan bears interest at a fixed rate of 9.50% and matures May 2010. The leverage we used for our mezzanine loan investments was 2.4 times, and we currently expect to leverage our investments in mezzanine obligations in the range of two to six times. We expect that mezzanine loans will remain between 2% and 5% of our total investments in the next 12 months as we diversify our investments.

### ***Residential Real Estate-Related Investments***

We invest in adjustable rate and hybrid adjustable rate agency RMBS, which are securities representing interests in mortgage loans secured by residential real property in which payments of both principal and interest are generally made monthly, net of any fees paid to the issuer, servicer or guarantor of the securities. In agency RMBS, the mortgage loans in the pools are guaranteed as to principal and interest by federally chartered entities such as Fannie Mae, Freddie Mac and Ginnie Mae. In general, our agency RMBS will be AAA-rated and will consist of mortgage pools in which we have the entire interest.

Adjustable rate RMBS have interest rates that reset periodically (typically monthly, semi-annually or annually) over their term. Because the interest rates on ARMs fluctuate based on market conditions, ARMS tend to have interest rates that do not deviate from current market rates by a large amount. This in turn can mean that ARMs have less price sensitivity to interest rates.

Hybrid ARMs have interest rates that have an initial fixed period (typically two, three, five, seven or ten years) and reset at regular intervals after that in a manner similar to traditional ARMs. Before the first interest rate reset date, hybrid ARMs have a price sensitivity to interest rates similar to that of a fixed-rate mortgage with a maturity equal to the period before the first reset date. After the first interest rate reset date occurs, the price sensitivity of a hybrid ARM resembles that of a non-hybrid ARM. However, because many hybrid ARMs are structured with a relatively short initial fixed interest rate period, even during that fixed rate period, the price sensitivity of hybrid ARMs may be low.

The investment characteristics of pass-through RMBS differ from those of traditional fixed-income securities. The major differences include the payment of interest and principal on the RMBS, as described above, and the possibility that principal may be prepaid on the RMBS at any time due to prepayments on the underlying

mortgage loans. These differences can result in significantly greater price and yield volatility than

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is the case with traditional fixed-income securities. On the other hand, the guarantees on agency RMBS by Fannie Mae, Freddie Mac and, in the case of Ginnie Mae, the U.S. government, provide reasonable assurance that the investor will be ultimately repaid the principal face amount of the security.

Mortgage prepayments are affected by factors including the level of interest rates, general economic conditions, the location and age of the mortgage, and other social and demographic conditions. Generally, prepayments on pass-through RMBS increase during periods of falling mortgage interest rates and decrease during periods of stable or rising mortgage interest rates. Reinvestment of prepayments may occur at higher or lower interest rates than the original investment, thus affecting the yield on our portfolio.

As of March 31, 2006, we had invested \$835.3 million on a fair value basis (\$853.5 million on an amortized cost basis), or 42.26% of our total investments, in agency RMBS. We expect that agency RMBS will decrease to between 25% and 30% of our total investments in the next 12 months as we diversify our investments. The leverage we used for our investments in agency RMBS was 9.0 times. In general, we expect our leverage for this asset class to be in the range of eight to 12 times.

We also invest in non-agency RMBS. The principal difference between agency RMBS and non-agency RMBS is that the mortgages underlying the non-agency RMBS do not conform to agency guidelines as a result of documentation deficiencies, high LTV ratios or credit quality issues. We expect that our non-agency RMBS will include loan pools with home equity loans (loans that are secured by subordinate liens), residential B/C loans (loans where the borrower's FICO score, a measure used to rate the financial strength of the borrower, is low, generally below 625), "Alt-A" loans (where the borrower's FICO score is between 675 and 725) and "high LTV" loans (loans where the LTV 95% or greater).

As of March 31, 2006, we had invested \$344.7 million on a fair value basis (\$345.0 million on an amortized cost basis), or 17.44% of our total investments, in non-agency RMBS. We expect that non-agency RMBS will remain between 15% and 20% of our total investments in the next 12 months as we diversify our investments. The table below describes the terms of our non-agency RMBS (unaudited, dollars in thousands). Dollar price is compared by dividing amortized cost by par amount.

	<u>Amortized cost</u>	<u>Dollar price</u>
<b>Moody's ratings category:</b>		
A1 through A3	\$ 42,324	100.23%
Baa1 through Baa3	279,740	99.84%
Ba1 through Ba3	22,974	89.51%
	<hr/>	
Total	\$ 345,038	99.13%

<b>S&amp;P ratings category:</b>		
A+ through A-	\$ 59,586	99.58%
BBB+ through BBB-	262,729	99.01%
BB+ through BB-	1,723	92.39%
No rating provided	21,000	100.00%
	<hr/>	
Total	\$ 345,038	99.13%

Weighted average rating factor	408
Weighted average original FICO	631
Weighted average original LTV	79.01%

As of March 31, 2006, our investments in non-agency RMBS were leveraged 13.9 times. In general, after financing our non-agency RMBS through CDOs or other term financing, we expect our leverage for this asset class to be in the range of 10 to 15 times.



[Back to Contents](#)**Commercial Finance Investments**

*Syndicated bank loans.* We acquire senior and subordinated, secured and unsecured loans made by banks or other financial entities. Syndicated bank loans may also include revolving credit facilities, under which the lender is obligated to advance funds to the borrower under the credit facility as requested by the borrower from time to time. We expect that some amount of these loans will be secured by real estate mortgages or liens on other assets. Certain of these loans may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the loan. These loans may include restrictive financial and operating covenants. We also intend to invest, to a lesser extent, in bonds which pay holders a coupon periodically until maturity of the bonds, when the face value is due.

As of March 31, 2006, we had invested \$474.6 million on a fair value basis (\$471.7 on an amortized cost basis), or 24.01% of our total investments, in syndicated bank loans. We expect that syndicated bank loans will increase to between 27% and 30% of our total investments in the next 12 months. The table below describes the terms of our syndicated bank loan investments (unaudited, dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	<u>Amortized cost</u>	<u>Dollar price</u>
<b>Moody's ratings category:</b>		
Ba1 through Ba3	\$ 193,600	100.18%
B1 through B3	277,865	100.21%
Caa1 through Caa3	256	102.40%
	<u>          </u>	
Total	\$ 471,721	100.20%
	<u>          </u>	

<b>S&amp;P ratings category:</b>		
BBB+ through BBB-	\$ 5,158	100.14%
BB+ through BB-	180,496	100.17%
B+ through B-	283,865	100.22%
CCC+ through CCC-	1,202	99.42%
No rating provided	1,000	100.00%
	<u>          </u>	
Total	\$ 471,721	100.20%
	<u>          </u>	

Weighted average rating factor	2,070
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As of March 31, 2006, our investments in syndicated bank loans financed through Apidos CDO I were leveraged 11.3 times and our investments in syndicated bank loan financing on our Apidos CDO III warehouse line were leveraged 26.6 times, principally as a result of using warehouse facilities to accumulate these assets. In general, after financing our syndicated bank loans through CDOs or other term financing, we expect our leverage for this asset class to be in the range of five to 12 times.

*Other asset-backed securities.* We invest in other ABS, principally CDOs backed by small business loans and trust preferred securities of financial institutions such as banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITs. As with CDOs collateralized by RMBS and CMBS, discussed above, we may invest in either the equity or debt tranches of the CDOs. Although we currently have no plans to do so, we may also invest in consumer ABS, such as ABS backed by credit card receivables and automobile loans. As with CDOs collateralized by RMBS and CMBS, to avoid actual or potential conflicts of interest we will not invest in any CDO structured, co-structured or managed by the Manager or Resource America other than those structured, co-structured or managed on our behalf.

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As of March 31, 2006, we had invested \$21.4 million on a fair value and \$21.6 million on an amortized cost basis, or 1.08% of our total investments, in other ABS. We expect that other ABS will decrease to 1% or less of our total investments in the next 12 months as we diversify our investments. The table below describes the terms of our other ABS (unaudited, dollars in thousands). Dollar price is computed by dividing amortized cost by par amount.

	<u>Amortized cost</u>	<u>Dollar price</u>
<b>Moody's ratings category:</b>		
Baa1 through Baa3	\$ 21,558	99.88%
Total	\$ 21,558	99.88%

<b>S&amp;P ratings category:</b>		
BBB+ through BBB-	\$ 19,091	99.87%
No rating provided	2,467	99.96%
Total	\$ 21,558	99.88%

Weighted average rating factor 398

As of March 31, 2006, our investments in other ABS were leveraged 13.9 times. In general, after financing our other ABS through CDOs or other term financing, we expect our leverage for this asset class to be in the range of 10 to 15 times.

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

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

As of March 31, 2006, we held \$61.5 million on both a fair value and an amortized cost basis, or 3.11% of our total investments, of equipment leases and notes, net of unearned income. We expect that equipment leases and notes will remain between 1% and 4% of our total investments in the next 12 months. Our investments in equipment and notes were leveraged 10.0 times. In general, after financing our equipment leases and notes, secured term financing or other term financing, we expect our leverage for this asset class to be in the range of three to nine times.

*Trust preferred securities.* We intend to invest in trust preferred securities, with an emphasis on securities of small- to middle-market financial institutions, including banks, savings and thrift institutions, insurance companies, holding companies for these institutions and REITs. Trust preferred securities are issued by a special purpose trust that holds a subordinated debenture or other debt obligation issued by a company to the trust. The company holds the equity interest in the trust, with the preferred securities of the trust being sold to investors. The trust invests the proceeds of the preferred securities in the sponsoring company through the purchase of the debenture issued by the company. Issuers of trust preferred securities are generally affiliated with financial institutions because, under current regulatory and tax structures, unlike the proceeds from debt securities the proceeds from trust preferred securities may be treated as primary regulatory capital by the financial institution,

while it may deduct the interest it pays on the debt obligation held by the trust from its income for federal income tax purposes. Our focus will be to invest in trust preferred securities issued by financial institutions that have favorable characteristics with respect to market demographics, cash flow stability and franchise value.

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As of March 31, 2006, we had not invested in trust preferred securities. We expect that trust preferred securities will constitute 1% or less of our total investments in the next 12 months. We currently expect to leverage our investment in trust preferred securities in the range of six to 12 times.

### ***Collateralized Debt Obligations***

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

In general, CDOs are issued by special purpose vehicles that hold a portfolio of debt obligation securities. The CDO vehicle issues tranches of debt securities of different seniority, and equity to fund the purchase of the portfolio. The debt tranches are typically rated based on portfolio quality, diversification and structural subordination. The equity securities issued by the CDO vehicle are the "first loss" piece of the vehicle's capital structure, but they are also generally entitled to all residual amounts available for payment after the vehicle's obligations to the debt holders have been satisfied.

As of March 31, 2006, we had invested \$18.8 million in CDO transactions, which are included in other asset-backed securities. We currently expect to leverage our investments in CDOs in the range of 10 to 15 times.

### ***Private Equity Investments***

To a lesser extent, subject to limitations imposed by REIT qualification standards and requirements for exclusion from regulation under the Investment Company Act, we also may invest from time to time in equity securities, which may or may not be related to real estate. We do not have a policy regarding the amount in these investments we may hold, but do not expect that they will exceed 2% of our total assets. These investments may include direct purchases of private equity as well as purchases of interests in private equity funds. While we do not have a policy or limitation with respect to the types of securities we may acquire, or the activities of the person in which we may invest, we expect that any such investments will consist primarily of private equity securities issued by financial institutions, particularly banks and savings and thrift institutions. We will follow a value-oriented investment approach and focus on the anticipated future cash flows generated by the underlying business, discounted by an appropriate rate to reflect both the risk of achieving those cash flows and the alternative uses for the capital to be invested. We will also consider other factors such as the strength of management, the liquidity of the investment, the underlying value of the assets owned by the issuer, and prices of similar or comparable securities.

As of March 31, 2006 we had not invested in private equity investments. We expect that private equity investments will constitute 1% or less of our total investments in the next 12 months. We expect to leverage our private equity investments in the range of one to three times.

### ***The Manager***

We are externally managed and advised by the Manager, an indirect wholly-owned subsidiary of Resource America, with whom it shares personnel. We do not have any ownership interest in the Manager. Under our management agreement, the Manager is responsible for providing us with all of the management and support personnel and services necessary for our operation. For a description of the duties of the Manager, see "Management" Management Agreement "Duties." Neither we nor the Manager expect to have any employees of our own, nor does either of us expect to have any independent officers, although our chief financial officer is exclusively dedicated to our operations.

The officers and directors of the Manager are as follows:

<b>Name</b>	<b>Position</b>
Edward E. Cohen	Chairman of the Board



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Jonathan Z. Cohen	Chief Executive Officer, President and Director
Thomas C. Elliott	Chief Financial Officer
Steven J. Kessler	Senior Vice President <input type="checkbox"/> Finance and Director
Michael S. Yecies	Chief Legal Officer and Secretary

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For biographical information on Messrs. Cohen, Cohen, Kessler, Elliott and Yecies, please see "Management Directors and Executive Officers" and "Other Significant Personnel."

Resource America is a publicly-traded specialized asset management company that uses industry-specific expertise to generate and administer investment opportunities for its own account and for institutional and sophisticated individual investors in structured finance (primarily RMBS, CMBS and other ABS), real estate, equipment leasing and financial services. As of March 31, 2006, Resource America managed approximately \$9.5 billion of assets in these sectors, including approximately \$6.2 billion in CDOs on a cost basis. We do not control the assets or personnel of Resource America.

To provide its services, the Manager draws upon the expertise and experience of Resource America which, as of March 31, 2006, had 194 employees involved in asset management, including 64 asset management professionals and 130 asset management support personnel. Resource America conducts its asset management activities through the following subsidiaries:

- Ischus invests in, finances, structures and manages RMBS, CMBS and other ABS. As of March 31, 2006, Ischus had a team of seven asset management professionals and three asset management support personnel managing over \$4.0 billion of MBS and other ABS on a cost basis, of which over \$1.2 billion was managed on our behalf, including \$394.6 million of assets on a cost basis that were financed through Ischus CDO II, which closed July 27, 2005 and in which we own 100% of the equity. These equity interests are subordinate in right of payment to all other securities issued by the CDO.
- Resource Real Estate originates, finances and manages investments in real estate and real estate loans. As of March 31, 2006, Resource Real Estate had a team of 19 asset management professionals and seven asset management support personnel managing over \$638.2 million of commercial and multi-family real estate assets, of which \$212.4 million were managed on our behalf.
- Apidos invests in, finances and manages syndicated bank loans. As of March 31, 2006, Apidos had a team of nine asset management professionals and one asset management support employee who managed approximately \$828.8 million of syndicated bank loans on a cost basis, of which \$471.7 million were managed on our behalf, including \$338.9 million of syndicated bank loans on a cost basis that were financed through Apidos CDO I, which closed August 4, 2005 and in which we own 100% of the equity, and approximately \$132.8 million of assets on a cost basis which have been accumulated on our behalf in a warehouse facility for Apidos CDO III, in which we intend to purchase 100% of the equity. The Apidos CDO I equity interests are, and the Apidos CDO III equity interests will be, subordinate in right of payment to all other securities issued by the CDO.
- Trapeza, a joint venture between Resource America and an unaffiliated third party, originates, structures, finances and manages trust preferred securities of banks and other financial institutions. As of March 31, 2006, Trapeza managed or co-managed over \$3.5 billion of trust preferred securities on a cost basis, of which \$3.0 billion were held by nine CDOs. Resource America had three asset management professionals and four asset management support personnel dedicated to Trapeza's operations as of March 31, 2006.
- LEAF Financial originates, manages and services small- and middle-ticket equipment lease assets. LEAF Financial had 24 asset management professionals and 81 asset management support personnel at March 31, 2006 managing over \$469.7 million in book value of equipment lease assets, of which \$61.5 million was managed on our behalf.

The amount of time asset management and other personnel devote to managing our assets depends on the relative amount of assets managed on our behalf and on behalf of Resource America. As of March 31, 2006, Ischus personnel devoted approximately 31% of their time, Resource Real Estate personnel devoted approximately 33% of their time, Apidos personnel devoted approximately 57% of their time, and LEAF Financial personnel devoted approximately 13% of their time to managing our assets. The amount of time our executive officers, other than our chief financial officer, will devote to our operations will depend upon whether we are actively investing capital, when they will devote between approximately 40% and 60% to us, or we are simply managing our portfolio, when they

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will devote between approximately 20% and 25% to us. Our chief financial officer is exclusively dedicated to our operations.

### **Asset Management and Administrative Resources of the Manager and Resource America**

Under our management agreement, we will have access to the management infrastructure that Resource America has built as a Sarbanes Oxley compliant public company.

Resource America has a total of 194 employees who carry out its management operations, and will provide us with the following functions:

- A 19-person accounting and finance department reporting to Resource America CFO Steven Kessler provides accounting and internal audit functions. This group also manages, with respect to the CDOs managed by Resource America, investor reporting, the monitoring of cash flows, and interactions with trustees.
- A 10-person technology department which is responsible for managing the technology infrastructure of each of Resource America's asset management divisions and its business continuity and disaster recovery functionality.
- A five-person legal department led by Resource America Chief Legal Officer Michael Yecies, which is responsible for legal and regulatory compliance functions, as well as the monitoring of traders and other employees for compliance with Resource America's internal policies and procedures.
- LEAF Financial has a total of 105 employees, including a field sales force and telephone sales force dedicated to originating leasing assets, as well as a servicing department that manages collection through strong telephone and mail efforts. LEAF has a complete technology platform that enables automated application, credit scoring based on Dun & Bradstreet data, customer relationship management, asset tracking, collection management, and document generation.

### **Investment Process**

**General.** Our investment process is managed broadly by our investment committee and, under its guidance, more specifically by the Manager and, through it, the asset management divisions of Resource America. See "The Manager" and "Management" Investment Committee. The members of our investment committee are Messrs. J. Cohen, E. Cohen, Allen, Blomstrom, Bloom, Feldman, Shook, DeMent and Ms. Bergstresser. For biographical information regarding members of our investment committee please see "Directors and Executive Officers" and "Other Significant Personnel." Our investment committee does not review investments for any other entities. Our investment committee meets at least weekly to establish and review allocation of capital to specific investment strategies and to establish and review guidelines for the specific investment strategies to which capital is allocated. The investment decision process for each strategy consists of various types of diligence and quantitative analyses, depending upon the asset class. However, in general, the Manager follows the decision-making process shown below:

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**Investment Guidelines.** We have established and comply with investment policies and procedures and investment guidelines that are reviewed and approved by our investment committee and board of directors. The investment committee meets as frequently as necessary in order for us to achieve our investment objectives. We review our investment portfolio and related compliance with our investment policies and procedures and investment guidelines at each regularly scheduled board of directors meeting.

Our board of directors and investment committee have adopted the following guidelines, among others, for our investments and borrowings:

- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act; and
- with the exception of real estate, no industry shall represent greater than 20% of the securities in our portfolio.

These investment guidelines may be changed by a majority of our board of directors without the approval of our stockholders.

As a result of our investment strategies and targeted asset classes, we acquire our investments primarily for income. We do not have a policy that requires us to focus our investments in one or more particular geographic areas.

**Investment Sourcing.** The Manager originates portfolio investments, other than equipment leases and notes and trust preferred securities, through a variety of financial industry sources including investment banks, brokerage firms, commercial banks and loan originators including Banc Investment Group, LLC, Barclays Capital Inc, Bear, Stearns International Limited, Citibank N.A., Credit Suisse Securities (USA) LLC, FIG Partners, LLC, Friedman, Billings, Ramsey & Co., Inc., Howe Barnes Investments, Inc., Keefe, Bruyette & Woods, Inc., Lehman Brothers Inc., Morgan Keegan & Co., Inc., Morgan Stanley & Co. Incorporated, RBS Greenwich Capital, Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC. The Manager bases its origination capability on relationships its investment professionals have developed with these sources over their professional careers, as well as upon its, Resource America's and our current presence in the marketplace as sponsor, originator, holder or acquiror of assets in our asset classes.

LEAF Financial will be responsible for sourcing of our equipment lease investments. LEAF Financial's strategy for lease originations involves marketing to direct sales organizations which offer LEAF Financial's leases as part of their equipment marketing package. By developing and maintaining these programs, LEAF Financial is able to use the sales forces of these organizations, and those of their distributors, dealers and resellers, to market its leasing products and services to the highly dispersed population of small- to middle-sized businesses.

Our ability to source trust preferred investment opportunities comes from Resource America's relationships with the regional broker-dealer community that services smaller financial services companies. We also expect to source investments directly through our own relationships in the commercial banking sector.

**Credit and Risk Management Analysis.** The backbone of the Manager's and Resource America's investment process is credit analysis. The Manager and Resource America focus their attention on credit and risk assessment from the earliest stage of its investment selection process. The Manager and Resource America also will screen and monitor all potential investments to determine their impact on maintaining our REIT qualification and our exclusion from regulation under the Investment Company Act. Risks related to portfolio management, including the management of risks related to credit losses, interest rate volatility, liquidity and counterparty credit, are generally managed on a portfolio-by-portfolio basis by each of Resource America's asset management divisions, although there is often interaction and cooperation between divisions in this process.

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The factors the Manager considers in its credit analysis process are shown below:

The Manager and Resource America use several proprietary risk management systems, including proprietary quantitative analytics, proprietary internal rating methodologies and investment committee processes, in determining investment and sale decisions. The Manager and Resource America conduct continuous ongoing surveillance of our portfolio and interacts with their affiliates on identifying and monitoring credit trends. In addition to these features, the investment managers will use a broad array of software and technology to manage risk. Key features of the risk management system include:

- *PROTECT: Principal Recovery and Collateral Tracking.* PROTECT is a proprietary surveillance and risk management process developed by Resource America for the early identification of troubled and deteriorating securities in the RMBS, CMBS and ABS sectors. Under the principal recovery portion of the process, PROTECT examines not only net loss rates, but also the composition of net loss rates, such as gross loss rates and recovery rates, in order to detect negative pool trends and/or accounting irregularities for securities held in the portfolio. PROTECT's collateral tracking methodology includes:
  - the monitoring of individual bond payments, prepayments, delinquencies, losses, subordination, excess spread and overcollateralization build-up;
  - portfolio impact stress-testing for changes in prepayment speeds, loss rates, and interest rate scenarios;
  - analysis of servicer's and loan originator's financial condition;
  - analysis of sector performance and vintage comparison;
  - frequent marking to market of the portfolio; and
  - analysis of ratings events or downgrades.

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- *Proprietary Credit Stratifications.* Resource America has developed a set of proprietary credit stratifications to identify and measure the risks associated with potential non-agency RMBS, CMBS and other ABS investments. Data points for these stratifications include credit scores, LTV ratios, debt-to-income ratios, interest only loans, documentation type, mortgage insurance (where applicable), floating-rate/fixed-rate composition, credit enhancement and geographic dispersion. Stratifications are designed to focus on loans that are outside normal parameters, or outliers, as well as means and medians, in order to measure the dispersion of collateral.
  
- *Proprietary Collateral Stresses.* The Manager and Resource America run proprietary collateral stresses to analyze the amount of structural protection associated with non-agency RMBS, CMBS and other ABS investments. Default assumptions are combined in the stress runs with
  - varying prepayment speeds on various collateral subgroups,
  - interest rate shocks,
  - varying recovery rates on defaulted loans, and
  - servicer advancement and timeliness

to determine how much cumulative loss the investment can withstand and still pay the contractual coupon and/or principal invested.

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□ *Technology and Software.* Resource America has built an extensive technology platform. This platform is critical to portfolio monitoring and credit analysis. The Manager and Resource America use the following software and technology in monitoring portfolios:

<b>Product</b>	<b>Function</b>	<b>Agency RMBS</b>	<b>Non-agency RMBS</b>	<b>CMBS A and B notes/mezzanine loans</b>	<b>Syndicated bank loans</b>	<b>ABS/CDO</b>	<b>Trust preferred securities</b>	<b>Equipment leases and notes</b>
Derivative Solutions	Risk mgt/portfolio analytics	X	X			X	X	
Intex	Cash flows/static data/security analytics	X	X			X	X	
Bloomberg	Market data/collateral data/security analytics	X	X	X		X	X	
Trepp	CMBS			X				
Moody's	Credit/surveillance		X	X		X	X	
Standard & Poors	Credit/surveillance		X	X		X	X	
Fitch	Credit/surveillance		X	X		X	X	X
CoStar	Market data/collateral data/surveillance			X				
Claritas	Market data			X				
Smith Travel Research	Market data/collateral data/surveillance			X				
REIS	Market data/collateral data/surveillance			X				
Wall Street Office	Risk management/portfolio analytics					X		
Dun & Bradstreet	Credit/credit scoring							X
SNL Datasource	Financial institution regulatory and market data						X	
KMV Risk Calc	Credit						X	
Lease Tracking	App entry/credit/documentation							X
INFOLease	Asset tracking/invoicing, collections/lease accounting/ sales tax							X
CRM	Tracks all activity/usage levels for leasing vendors							X
Proprietary	Risk mgt/portfolio analytics	X	X	X		X	X	

**Our Financing Strategy**

**Overview.** We use leverage in order to increase potential returns to our stockholders and for financing our portfolio. We do not expect to speculate on changes in interest rates. However, our use of leverage may also have the effect of increasing losses when economic conditions are unfavorable. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage and our investment committee will have the discretion, without the need for further approval by our board of directors, to increase the amount of leverage we incur above our targeted range for individual asset classes. As of March 31, 2006, our leverage ratio was 7.9 times. We typically accumulate investments in our warehouse facilities or through repurchase arrangements and, upon our acquisition of the assets in those facilities, refinance them with CDOs. We are not limited to CDOs for our refinancing needs, and may use other forms of term financing if we believe that market conditions make it appropriate. While we may use other forms of term financing, such as long-term match funded financing provided through bank financing and asset-backed financing programs, we do not expect that they will be a material part of our financing structure.

**Warehouse facilities.** We rely on warehouse credit facilities for the capital we need to accumulate our investments, other than agency RMBS. These facilities are typically lines of credit from financial institutions



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that we can draw from to fund our investments. Warehouse lines are typically collateralized loans made to investors who invest in securities and loans that in turn pledge the resulting securities and loans to the lender. Third party custodians, usually large banks, typically hold the securities and loans funded with the warehouse facility borrowings, including the securities, loans, notes, mortgages and other important loan documentation, for the benefit of the lender who is deemed to own the securities and loans and, if there is a default under the warehouse line, for the benefit of the warehouse lender.

The pool of assets in a warehouse facility typically must meet specified requirements, including term, average life, investment rating, agency rating and sector diversity requirements. There are also specified requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs. Failure to comply with these requirements could result in either the need to post additional collateral or cancellation of the financing facility.

As of March 31, 2006, we had one warehouse facility with an aggregate total draw of \$132.8 million and with \$67.2 million of current availability. We entered into agreements for two CDO financings in the aggregate amount of \$750.0 million to provide term financing for the assets accumulated in warehouse facilities. Ischus CDO II closed July 27, 2005 and Apidos CDO I closed August 4, 2005, whereupon the assets in the warehouse facilities were transferred to them and the facilities terminated.

**Repurchase agreements.** We finance our agency RMBS, A notes, B notes and mezzanine loans through the use of repurchase agreements. These agreements allow us to borrow against RMBS, A notes, B notes and mezzanine loans we own. We sell our RMBS, A notes, B notes and mezzanine loans to a counterparty and agree to repurchase the same RMBS, A notes and B notes from the counterparty at a price equal to the original sale price plus an interest factor. We account for these agreements as debt, secured by the underlying assets. During the term of a repurchase agreement, we earn the principal and interest on the related RMBS, A notes and B notes and pay interest to the counterparty.

Our repurchase agreement counterparties are commercial and investment banks with whom we have agreements in place that cover the terms of our transactions. All our repurchase agreement counterparties have been formally approved by our investment committee and are monitored for changes in their financial condition.

As of March 31, 2006, we were party to repurchase agreements with nine counterparties. As of March 31, 2006, we had \$917.3 million outstanding with four of these counterparties. For a description of the terms of our repurchase agreements, see [Management's Discussion and Analysis of Financial Condition and Results of Operations] Liquidity and Capital Resources.

**Term financing [ CDOs.** We expect to finance our non-agency RMBS, CMBS, A notes, B notes, mezzanine loans and commercial finance assets through term match funding strategies and, in particular, through the use of CDOs. We describe the general structure of a CDO in [Investment Strategy] Collateralized Debt Obligations.

Unlike typical securitization structures, the underlying assets in a CDO pool may be sold, subject to certain limitations, without a corresponding pay-down of the CDO provided the proceeds are reinvested in qualifying assets. As a result, CDOs enable the sponsor to actively manage the pool of assets. We believe CDO financing structures may be an appropriate financing vehicle for our targeted asset classes other than agency RMBS because they will enable us to lock in our cost of funds on a long-term basis and minimize the risk that we will have to refinance our liabilities before our investments mature or reprice, while giving us the flexibility to manage credit risk and, subject to certain limitations, to take advantage of profit opportunities.

As of March 31, 2006, we closed two CDO financings in the aggregate amount of \$750.0 million on July 27, 2005 and August 4, 2005. For a description of the terms of these CDOs, see [Management's Discussion and Analysis of Financial Condition and Results of Operations] Financial Condition.

**Hedging and interest rate risk management strategy.** Repurchase agreements generally have maturities of 30 to 90 days while the weighted average life of the RMBS we will own generally will be longer. The difference in maturities, in addition to reset dates and reference indices, creates potential interest rate risk.



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

We intend to engage in a variety of interest rate management techniques that seek to mitigate changes in interest rates or potentially other influences on the values of our assets. Because of the tax rules applicable to REITs, we may be required to implement some of these techniques through a TRS that is fully subject to corporate income taxation. Our interest rate management techniques may include:

- puts and calls on securities or indices of securities;
- interest rate swaps, including options and forward contracts;
- interest rate caps, including options and forward contracts;
- interest rate collars, including options and forward contracts; and
- interest rate lock agreements, principally Treasury Lock agreements.

These techniques may also be used in an attempt to protect us against declines in the market value of our assets that result from general trends in debt markets.

We may from time to time enter into interest rate swap agreements to offset the potential adverse effects of rising interest rates under short-term repurchase agreements. Interest rate swap agreements have historically been structured such that the party seeking the hedge protection receives payments based on a variable interest rate and makes payments based on a fixed interest rate. The variable interest rate on which payments are received is calculated based on various reset mechanisms for LIBOR. The repurchase agreements generally have maturities of 30 to 90 days and carry interest rates that correspond to LIBOR rates for those same periods. The swap agreements will effectively fix our borrowing cost and will not be held for speculative or trading purposes.

As of March 31, 2006, we had hedged the repurchase agreements through which we financed our agency RMBS portfolio by entering into four one-year interest rate swaps and one amortizing swap agreement for approximately two years with Credit Suisse International, an affiliate of Credit Suisse Securities (USA) LLC, one of the underwriters of our initial public offering. The total value of such swaps was \$736.6 million and the weighted average fixed rate we pay is 4.14%.

As of March 31, 2006, we had entered into one interest rate swap agreement with AIG Financial Products, Corp. whereby we swap a floating rate of interest in the liability we are hedging for a fixed rate of interest, and one interest rate cap whereby we reduce our exposure to the variability of future cash flows attributable to changes in LIBOR. The notional amount of these agreements were \$13.2 million and \$15.0 million, respectively. The fixed rate we paid on our interest rate swap was 4.49% as of March 31, 2006.

As of March 31, 2006, we had entered into two amortizing interest rate swap agreements with Bayerische Hypo-und-Vereinsbank AG, New York Branch (HVB) whereby we swap a floating rate of interest in the liability we are hedging for a fixed rate of interest. The notional amount of these agreements were \$54.9 million. The weighted average fixed rate we paid on our interest rate swap was 5.31% as of March 31, 2006.

Interest rate management techniques do not eliminate interest rate risk but, rather, seek to mitigate it. For example, if both long-term and short-term interest rates were to increase significantly, it could be expected that:

- the weighted average life of our MBS would be extended because prepayments of the underlying mortgage loans would decrease; and
- the market value of any fixed rate MBS would decline as long-term interest rates increased.

**Competition**

Our net income depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring real estate-related assets, we compete with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities. In addition, there are numerous MBS and other mortgage REITs with similar asset acquisition objectives, and others may be organized in the future. The effect of the existence of additional REITs may be to increase

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competition for the available supply of mortgage assets suitable for purchase. Many of our competitors are significantly larger than us, have access to greater capital and other resources and may have other advantages over us. In addition to existing companies, other companies may be organized for similar purposes, including companies organized as REITs focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of our common stock. Moreover, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. For additional information concerning the competitive risks we face, see "Risk Factors" Risks Related to Our Business. We operate in a highly competitive market for investment opportunities, which may result in higher prices, lower yields and a narrower net interest spread for our investments, and may inhibit the growth or delay the diversification of our portfolio.

### **Our Formation and Structure**

We were organized on January 31, 2005 as a Maryland corporation and completed a private offering of our common stock in March 2005 in which we sold 15,333,334 shares of our common stock, resulting in net proceeds to us of \$214.8 million. Credit Suisse Securities (USA) LLC acted as our exclusive initial purchaser and placement agent in this offering. Resource America, the corporate parent of the Manager, and entities affiliated with it purchased 1,000,000 shares of our common stock in the offering. 900,000 of the shares purchased by Resource America are held by Resource Capital Investor, a wholly owned subsidiary of Resource America. The remaining 100,000 shares purchased by Resource America are held by the Manager. Directors, officers and other persons related to us, the Manager and Resource America and their affiliated entities purchased 278,000 shares in that offering. In addition, at the completion of the offering, we granted to the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 per share, of which 344,079 shares of restricted stock were allocated to persons who are directors, officers and employees of the Manager or of Resource America providing services through the Manager.

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

On January 31, 2006, pursuant to the management agreement by and among us, the Manager and Resource America, we paid to the Manager 5,738 common shares. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2005.

On February 6, 2006, we priced and, on February 10, 2006, we completed the initial public offering of our common stock, through which we raised net proceeds (after deducting expenses) of approximately \$27.6 million. In our initial public offering, Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. served as representatives on behalf of themselves and the other underwriters, which included Bear, Stearns & Co. Inc., Piper Jaffray & Co. and Flagstone Securities LLC. Resource America, through its wholly-owned subsidiary, Resource Capital Investor, purchased 900,000 shares of common stock in the initial public offering.

As of May 12, 2006, Resource America, the Manager and their affiliates, including our officers and directors, collectively owned 2,609,462 shares of our common stock, representing 13.0% of our outstanding shares of common stock, and had warrants and options to purchase an additional 814,370 shares of our common stock representing an additional 4.1% of our outstanding shares of common stock, in each case assuming all warrants and options are exercised.

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

### **Registration Rights and Lock-Up Agreements**

*Registration Rights Agreement.* Pursuant to a registration rights agreement between us and Credit Suisse Securities (USA) LLC in our March 2005 private offering, for the benefit of certain holders of our common stock, entered into on March 8, 2005, we were required, among other things, to file with the SEC by March 31, 2006, the resale shelf registration statement of which this prospectus is a part, registering all of the 15,333,334 shares of common stock purchased or placed by Credit Suisse Securities (USA) LLC in our March 2005 private placement (excluding the 1,879,200 shares registered and sold by certain selling stockholders in our February 2006 initial public offering). We are also registering by this registration statement 345,000 shares of restricted stock and 651,666 shares of common stock underlying options issued to the Manager upon completion of our March 2005 private offering. We are required under the registration rights agreement to use our commercially reasonable efforts to cause the resale shelf registration statement of which this prospectus is a part to become effective under the Securities Act as promptly as practicable after the filing (and to maintain the resale shelf registration statement continuously effective under the Securities Act for a specified period).

We will be permitted to suspend the use, from time to time, of the registration statement of which this prospectus is a part (and therefore suspend sales under the registration statement) for certain periods, referred to as "blackout periods," if:

- the lead underwriter in any underwritten public offering by us of our common stock advises us that an offer or sale of shares covered by the registration statement would have a material adverse effect on our offering;
- our board of directors determines in good faith that the sale of shares covered by the registration statement would materially impede, delay or interfere with any proposed financing, offer or sale of securities, acquisition, corporate reorganization or other significant transaction involving our company; or

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- our board of directors determines in good faith that it is in our best interests or it is required by law that we supplement the registration statement or file a post-effective amendment to the registration statement in order to ensure that the prospectus included in the registration statement contains the financial information required under Section 10(a)(3) of the Securities Act, discloses any fundamental change in the information included in the prospectus or discloses any material information with respect to the plan of distribution that was not disclosed in the registration statement or any material change to that information,
- and we provide the stockholders notice of the suspension. The cumulative blackout periods in any 12-month period commencing on the closing of the offering may not exceed an aggregate of 90 days and, furthermore, may not exceed 45 consecutive days, except as a result of a refusal by the SEC to declare any post-effective amendment to the registration statement as effective after we have used all commercially reasonable efforts to cause the post-effective amendment to be declared effective, in which case, we must terminate the blackout period immediately following the effective date of the post-effective amendment.

*Lock-up Agreements.* Subject to certain exceptions, we, our directors and officers, members of our Investment Committee, our Manager, Resource America and their affiliates have agreed to be bound by lock-up agreements that prohibit us and them from selling, pledging, transferring or otherwise disposing of any of our common stock or securities convertible into our common stock for 180 days after February 6, 2006, the date of the prospectus relating to our February 2006 initial public offering. Credit Suisse Securities (USA) LLC may, in its discretion, release all or any portion of the common stock subject to the lock-up agreements with our directors and officers at any time without notice or stockholder approval, in which case our other stockholders would also be released from the restrictions pursuant to the registration rights agreement.

### **Our Corporate Information**

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

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

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

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We believe that RCC Real Estate, Inc., the subsidiary that as of March 31, 2006 held all of our assets other than our syndicated bank loans, equipment leases and notes and A note investments are 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, an additional 25% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate does not intend to issue redeemable securities.

We consider agency whole pool certificates to be qualifying real estate assets. An agency whole pool certificate is a certificate issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae that represents the entire beneficial interest in the underlying pool of mortgage loans. By contrast, an agency 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 25% test.

We generally do not expect that investments in non-agency RMBS, CMBS, A notes and B notes will constitute qualifying real estate assets for the 55% test, unless we determine that those investments are the "functional equivalent" of owning mortgage loans, which will depend, among other things, on whether we have unilateral foreclosure rights with respect to the underlying real estate collateral. Instead, these investments generally will be classified as real estate-related assets for purposes of the 25% test. We generally consider mezzanine loans to be real estate-related assets for purposes of the 25% test, although we may treat some or all of these assets as qualifying real estate assets for purposes of the 55% test if the SEC or its staff express the view that mezzanine loans do so qualify. We do not expect that investments in CDOs, other ABS, syndicated 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.

We do not expect that our other subsidiaries, RCC Commercial and Resource TRS, will qualify for this exclusion. However, we do expect them to qualify for another exclusion under Section 3(c)(7). Accordingly, as required by that exclusion, 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 no more than 40% of our assets, on an unconsolidated basis, excluding government securities and cash, are "investment securities" as defined in the Investment Company Act. Our interest in RCC Real Estate does not constitute an "investment security" for these purposes, but our interests in RCC Commercial and Resource TRS do constitute "investment securities." Accordingly, we must monitor the value of our interest in these two subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets. We will monitor the value of our interest in Resource TRS for tax purposes as well; the applicable tax rules require us to ensure that the total value of the stock and other securities of Resource TRS and any other TRS held directly or indirectly by us does not exceed 20% of the value of our total assets. These requirements may limit our flexibility in acquiring assets in the future.

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



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investment strategy accordingly. Any additional guidance from the SEC could provide additional flexibility to us or it could further inhibit our ability to pursue the investment strategy we have chosen.

#### **Policies with Respect to Certain Other Activities**

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities or the retention of cash flow (subject to provisions in the Internal Revenue Code concerning distribution requirements and the taxability of undistributed REIT taxable income) or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time.

We have not in the past but may in the future offer equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares and may engage in such activities in the future. As described above under  Our Financing Strategy,  we intend to borrow money in the ordinary course of business.

We have not in the past but may in the future, subject to gross income and asset tests necessary for REIT qualification, invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers. We may make such investments for the purpose of exercising control over such entities.

We engage in the purchase and sale of investments. We have not in the past but may in the future make loans to third parties in the ordinary course of business for investment purposes. We will not underwrite the securities of other issuers.

We intend to furnish our stockholders with annual reports containing consolidated financial statements audited by our independent certified public accountants and with quarterly reports containing unaudited consolidated financial statements for each of the first three quarters of each fiscal year.

Our board of directors may change any of these policies without prior notice to you or a vote of our stockholders.

#### **Legal Proceedings**

We and the Manager are not subject to any material legal proceedings as of the date of this prospectus.

[Back to Contents](#)**MANAGEMENT****Directors and Executive Officers**

The following table sets forth information regarding our directors and executive officers. All of our executive officers are employees of Resource America. Neither we nor the Manager expect that we will have any employees and, with the exception of our chief financial officer, our executive officers are not exclusively dedicated to our operations. Our board of directors has determined that Messrs. Beach, Hart, Levin and Neff are independent consistent with the rules of the New York Stock Exchange.

<b>Name</b>	<b>Age</b>	<b>Title</b>
Edward E. Cohen	67	Chairman and Director
Jonathan Z. Cohen	35	Chief Executive Officer, President and Director
Walter T. Beach	39	Director
William B. Hart	62	Director
Murray S. Levin	62	Director
P. Sherrill Neff	54	Director
Thomas C. Elliott	33	Chief Financial Officer, Chief Accounting Officer and Treasurer
Jeffrey D. Blomstrom	37	Senior Vice President □ CDO Structuring
Steven J. Kessler	63	Senior Vice President □ Finance
David E. Bloom	41	Senior Vice President □ Real Estate Investments

**Edward E. Cohen** has been our Chairman since March 2005. Mr. Cohen is Chairman of Resource America, a position he has held since 1990. He was Resource America's Chief Executive Officer from 1988 to 2004 and its President from 2000 to 2003. He is Chairman, Chief Executive Officer and President of Atlas America, Inc., a publicly traded (NASDAQ: ATLS) energy company, a position he has held since 2000, and Chairman of the Managing Board of Atlas Pipeline Partners GP, LLC, a wholly-owned subsidiary of Atlas America that is the general partner of Atlas Pipeline Partners, L.P., a publicly-traded (NYSE: APL) natural gas pipeline company. He is also a director of TRM Corporation, a publicly traded (NASDAQ: TRMM) consumer services company, and Chairman of Brandywine Construction & Management, Inc., a privately-held real estate management company. From 1981 to 1999 he was Chairman of the Executive Committee of JeffBanks, Inc., a bank holding company acquired by Hudson United Bancorporation. From 1969 to 1989 he was Chairman of the Executive Committee of State National Bank of Maryland (now a part of Wachovia Bank). Mr. Cohen is the father of Jonathan Z. Cohen.

**Jonathan Z. Cohen** has been our Chief Executive Officer and President and a director since March 2005. Mr. Cohen has been President since 2003, Chief Executive Officer since 2004 and a Director since 2002 of Resource America. He was Executive Vice President of Resource America from 2001 to 2003, and a Senior Vice President from 1999 to 2001. He has been Vice Chairman of the Managing Board of Atlas Pipeline Partners GP since its formation in 1999 and Vice Chairman of Atlas America since 2000. He has been the Vice Chairman of RAIT Investment Trust, a publicly traded (NYSE: RAS) REIT, since 2003, and Secretary, trustee and member of RAIT's investment committee since its formation in 1997. Since 2003 he has been the general partner of Castine Partners, L.P., a financial services hedge fund. Mr. Cohen is a son of Edward E. Cohen.

**Walter T. Beach** has been a director since March 2005. Mr. Beach has been Managing Director of Beach Investment Counsel, Inc., an investment management firm, since 1997. From 1993 to 1997, Mr. Beach was a Senior Analyst and Director of Research at Widmann, Siff and Co., Inc., an investment management firm where, beginning in 1994, he was responsible for the firm's investment decisions for its principal equity product. Before that he was an associate and financial analyst at Essex Financial Group, a consulting and merchant banking firm, and an analyst at Industry Analysis Group, an industry and economic consulting firm. Mr. Beach has served as a director of The Bancorp, Inc., a Delaware bank holding company, and its subsidiary bank, The Bancorp Bank, since 1999.

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**William B. Hart** has been a director since March 2005. Mr. Hart was Chairman of the Board of Trustees of the National Trust for Historic Preservation from 1999 to 2004. He was also a director of Anthem, Inc. (now Wellpoint, Inc.), a publicly-held health insurance company, from 2000 to 2004. Mr. Hart was Director of SIS Bancorp (now Banknorth Massachusetts, a division of Banknorth, N.A.) from 1995 to 2000. From 1988 to 1999, Mr. Hart served in various positions with Blue Cross/Blue Shield of New Hampshire, ending as Chairman of the Audit Committee and Chairman of the Board of Directors from 1996 to 1999. He also served as President of the Foundation for the National Capital Region, Washington, DC, from 1993 to 1996 and President of The Dunfee Group, a private investment firm, from 1986 to 1998. From 1986 to 1994 he was also director of First NH Banks where he was Chairman of the Audit Committee from 1992 to 1994.

**Murray S. Levin** has been a director since March 2005. Mr. Levin is a senior litigation partner at Pepper Hamilton LLP, a law firm with which he has been associated since 1970. Mr. Levin served as the first American president of the Association Internationale des Jeunes Avocats (Young Lawyers International Association), headquartered in Western Europe. He is a past president of the American Chapter and a member of the board of directors of the Union Internationale des Avocats (International Association of Lawyers), a Paris-based organization that is the world's oldest international lawyers association. Mr. Levin was a member of the managing board of Atlas Pipeline Partners GP from 2001 to March 2005.

**P. Sherrill Neff** has been a director since March 2005. Mr. Neff is a founder of Quaker BioVentures, Inc., a life sciences venture fund, and has been Managing Partner since 2002. He was a director of Resource America from 1998 to March 2005. From 1994 to 2002 he was President and Chief Financial Officer, and from 1994 to 2003, a director of Neose Technologies, Inc., a publicly-traded life sciences company. Mr. Neff was also a director of The Bancorp from its formation in 1999 until 2002.

**Thomas C. Elliott** has been our Chief Financial Officer, Chief Accounting Officer and Treasurer since September 2005. He was Senior Vice President – Assets and Liabilities Management from June 2005 until September 2005 and, before that, served as Vice President – Finance from March 2005. Mr. Elliott has been Senior Vice President since 2005 and was Vice President – Finance from 2001 to 2005 at Resource America. He has also been Chief Financial Officer of Resource Financial Fund Management, or RFFM, since 2004. From 1997 to 2001 Mr. Elliott was a Vice President at Fidelity Leasing, Inc. where he managed all capital market functions, including the negotiation of all securitizations and credit and banking facilities in the U.S. and Canada. Mr. Elliott also oversaw the financial controls and budgeting departments.

**Jeffrey D. Blomstrom** has been our Senior Vice President – CDO structuring since March 2005. Mr. Blomstrom has been President and Managing Director of RFFM since 2003. Mr. Blomstrom also currently serves as the head of collateral origination and as a member of the credit committee for Trapeza Capital Management. From 2001 to 2003 Mr. Blomstrom was a Managing Director at Cohen Brothers and Company, a Philadelphia-based investment bank specializing in the financial services sector. From 2000 to 2001 he was Senior Vice President of iATMglobal.net, Inc., an ATM software development company. Mr. Blomstrom was, from 1999 to 2000, an associate at Covington & Burling, a law firm, where he focused on mergers and acquisitions and corporate governance.

**Steven J. Kessler** has been our Senior Vice President – Finance since September 2005 and, before that, served as our Chief Financial Officer, Chief Accounting Officer and Treasurer from March 2005. Mr. Kessler has been Executive Vice President since 2005 and Chief Financial Officer since 1997 and was Senior Vice President from 1997 to 2005 of Resource America. He was Vice President – Finance and Acquisitions at Kravco Company, a national shopping center developer and operator, from 1994 to 1997. He has been a Trustee of GMH Communities Trust, a publicly traded specialty housing REIT, since 2004. From 1983 to 1993 he was employed by Strouse Greenberg & Co., a regional full service real estate company, ending as Chief Financial Officer and Chief Operating Officer. Before that, he was a partner at Touche Ross & Co. (now Deloitte & Touche LLP), independent public accountants.

**David E. Bloom** has been our Senior Vice President – Real Estate Investments since March 2005. Mr. Bloom has been Senior Vice President of Resource America since 2001. He has also been President of Resource Real Estate since 2004 and President of Resource Capital Partners since 2002. From 2001 to 2002 he was President of Resource Properties. Before that he was Senior Vice President at Colony Capital, LLC, an international real estate opportunity fund, from 1999 to 2001. From 1998 to 1999 he was Director at



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Sonnenblich-Goldman Company, a real estate investment bank. From 1995 to 1998 he was an attorney at the law firm of Willkie Farr & Gallagher, LLP.

#### **Other Significant Personnel**

**Christopher D. Allen**, 36, has been our Senior Vice President □ Commercial Lending since March 2005. Mr. Allen has been a Managing Director of RFFM since 2003. At RFFM, Mr. Allen is in charge of identifying, implementing and overseeing new CDO products. He is a member of the investment committee of Ischus and is also a member of the investment committee of Apidos where he serves as the Chief Operating Officer and Director of Product Management. Before joining RFFM, from 2002 to 2003 he was a Vice President at Trenwith Securities, the investment banking arm of BDO Seidman, LLP, where he was in charge of corporate finance, mergers and acquisitions and restructuring transactions. From 1994 to 1997 he was an Associate with Citicorp Venture Capital working on leveraged buyout and recapitalization transactions.

**Gretchen L. Bergstresser**, 43, has been our Senior Vice President □ Syndicated Loans since March 2005. Ms. Bergstresser has been the President and Senior Portfolio Manager of Apidos since 2005. Before joining Apidos, from 2003 to 2005 she was the Managing Director and Portfolio Manager of MJX Asset Management, a greater than \$1.5 billion boutique asset management firm managing leveraged loans across five structured vehicles. From 1996 to 2003 Ms. Bergstresser was CDO Portfolio Manager and Head Par Loan Trader at Eaton Vance Management, an investment management company. From 1995 to 1996 she was a Vice President in the Diversified Finance Division of Bank of Boston. From 1991 to 1995 she was a Vice President at ING (U.S.), Capital Markets, an investment banking firm.

**John R. Boyt**, 32, has been our Vice President □ Director of Loan Originations since January 2006. He has also been Senior Vice President of Resource Real Estate, Inc., a wholly-owned subsidiary of Resource America, since 2005. From 2004 to 2005 he was a principal of Structured Property Advisors, LLC, a CMBS investment advisory firm. From 1998 to 2004 he was an Associate Director of Bear, Stearns & Co. Inc., where he was a senior member of the commercial mortgage group involved in loan origination, underwriting, and CMBS sales. Before that, from 1997 to 1998, Mr. Boyt worked for Bankers Trust Company within their mortgage backed securities services unit, focusing on MBS and whole loan sales.

**Crit DeMent**, 53, has been our Senior Vice President □ Equipment Leasing since March 2005. Mr. DeMent has been Chairman and Chief Executive Officer of LEAF Financial Corporation since 2001. Mr. DeMent was Chairman and Chief Executive Officer of its subsidiary, LEAF Asset Management, Inc., from 2002 until 2004. From 2000 to 2001 he was President of the Small Ticket Group, an equipment leasing division of European American Bank. Before that, he was President and Chief Operating Officer of Fidelity Leasing, Inc. and its successor, the Technology Finance Group of CitiCapital Vendor Finance from 1996 to 2000. From 1987 to 1996 he was Vice President of Marketing for Tokai Financial Services, an equipment leasing firm.

**Alan F. Feldman**, 42, has been our Senior Vice President □ Real Estate Investments since March 2005. Mr. Feldman has been Senior Vice President of Resource America and President of Resource Properties since 2002. He has also been Chief Executive Officer of Resource Real Estate since 2004. From 1998 to 2002, Mr. Feldman was Vice President at Lazard Freres & Co., an investment banking firm, specializing in real estate mergers and acquisitions, asset and portfolio sales and recapitalization. From 1992 through 1998, Mr. Feldman was Executive Vice President of PREIT-RUBIN, Inc. the management subsidiary of Pennsylvania Real Estate Investment Trust, a publicly-traded REIT, and its predecessor, The Rubin Organization. Before that, from 1990 to 1992 he was a Director at Strouse, Greenberg & Co., a regional full service real estate company.

**Kevin M. Finkel**, 34, has been our Vice President □ Real Estate Investments since January 2006. He has also been employed by Resource Capital Partners, Inc. since 2002, and has been its Vice President and Director of Acquisitions since 2003. Mr. Finkel has also been with Resource Real Estate since 2004, and is currently its Senior Vice President and Director of Acquisitions. In 2000, Mr. Finkel was an Associate at Lehman Brothers, a global investment banking firm. From 1998 to 1999, Mr. Finkel was an Associate at

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Barclays Capital, the investment banking division of Barclays Bank PLC. From 1994 to 1998, Mr. Finkel was an investment banker at Deutsche Bank Securities, the investment banking division of Deutsche Bank AG.

**Andrew P. Shook**, 36, has been our Senior Vice President □ RMBS and CMBS since March 2005. Mr. Shook has been the President, Chief Investment Officer and Senior Portfolio Manager of Ischus since 2004. In 2001 Mr. Shook founded and ran HSBC Bank USA's structured finance credit arbitrage book until 2004. Before that, Mr. Shook worked domestically and in London for Bank of America from 1996 to 2001. From 1994 to 1996 he was a Senior Securities Analyst at Hyperion Capital Management, a commercial and residential mortgage related fixed income investment advisor.

**Victor Wang**, 44, has been our Vice President □ Director of Asset Management since January 2006. He has also been Vice President □ Director of Asset Management of Resource Real Estate since 2002. From 2000 to 2002, Mr. Wang was Vice President, Financing and Dispositions at Sonnenblick-Goldman Company, a national recognized real estate investment banking firm. From 1998 to 1999, Mr. Wang was a Senior Asset Manager at NorthStar Presidio Management Company, an asset management arm of Northstar Capital Investment Corp. Before that, from 1994 to 1998, Mr. Wang was an Asset Manager and Senior Analyst at Newkirk and Odin Management Companies, an asset management company specializing in the management of highly leveraged net lease and operating real estate.

**Michael S. Yecies**, 38, has been our Chief Legal Officer and Secretary since March 2005. Mr. Yecies has been Senior Vice President of Resource America since 2005 and Chief Legal Officer and Secretary since 1998. From 1994 to 1998 he was an attorney at the law firm of Duane Morris LLP.

#### **Investment Committee**

The role of our investment committee is to review and approve our investment policies, and review and approve our investment portfolio holdings and related compliance with our investment policies. The investment committee will meet at least weekly. The members of our investment committee are Messrs. J. Cohen, E. Cohen, Allen, Blomstrom, Bloom, Feldman, Shook and DeMent and Ms. Bergstresser. For biographical information regarding members of our investment committee please see □□ Directors and Executive Officers□ and □ □ Other Significant Personnel.□

#### **Board Committees**

Our board of directors has three standing committees, consisting solely of independent directors: the audit committee, the compensation committee, and the nominating and corporate governance committee. We set forth below the committees on which directors serve, the chairman of each committee and a description of the functions of each committee.

*Audit Committee.* Our audit committee consists of Mr. Neff, chairman, and Messrs. Beach and Hart. Our board of directors has determined that all the members of the audit committee satisfy the independence requirements of the New York Stock Exchange and the SEC, and that Messrs. Beach and Neff are audit committee financial experts.

Our audit committee operates pursuant to a written charter adopted by our board of directors. Among other things, the audit committee charter calls upon the audit committee to oversee:

- our accounting and financial reporting processes;
- the integrity and audits of our consolidated financial statements;
- our compliance with legal and regulatory requirements;
- the qualifications and independence of our independent auditors; and
- the performance of our independent auditors and any internal auditors.

The audit committee is also responsible for engaging independent registered public accountants, reviewing with the independent public accountants the plans and results of the audit engagement, approving professional services provided by the independent public accountants, reviewing the adequacy of our internal accounting controls and considering the range of audit and non-audit fees.



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*Compensation Committee.* Our compensation committee consists of Mr. Beach, chairman, and Messrs. Levin and Neff. Our board of directors has determined that all members of the compensation committee qualify as independent directors under the New York Stock Exchange independence standards. The principal functions of the compensation committee are to:

- review the compensation payable to our officers and directors;
- review the compensation and fees payable to the Manager under our management agreement; and
- administer the issuance of any stock issued to our employees or the employees of the Manager or Resource America who perform services for us.

*Nominating and Corporate Governance.* Our nominating and governance committee consists of Mr. Levin, as chairman, and Messrs. Beach and Hart. The committee is responsible for seeking, considering and recommending to our full board of directors qualified candidates for election as directors and recommending a slate of nominees for election as directors at the annual meeting of stockholders. It also periodically prepares and submits to our board for adoption the committee's selection criteria for director nominees. It reviews and makes recommendations on matters involving the general operation of our board and our corporate governance, and annually recommends to our board nominees for each committee of the board.

*Code of Business Conduct and Ethics.* Our board of directors has established a code of business conduct and ethics that applies to our officers, directors and employees and to the Manager's or Resource America's officers, directors and employees when such individuals are acting for or on our behalf. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the code to appropriate persons identified in the code; and