Resource Capital Corp.
Form 10-K
March 16, 2010

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

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _________ to __________

Commission file number: 1-32733
RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	_____20-2287134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

712 5th Avenue, 10th Floor, New York, NY 10019
(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No o

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

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

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of such stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2009) was approximately $63,790,874.

The number of outstanding shares of the registrant's common stock on March 8, 2010 was 38,938,950 shares.

DOCUMENTS INCORPORATED BY REFERENCE
[None]

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FORWARD-LOOKING STATEMENTS

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

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

- the factors described in this report, including those set forth under the sections captioned “Risk Factors” and “Business;”
- changes in our industry, interest rates, the debt securities markets, real estate markets or the general economy;
- increased rates of default and/or decreased recovery rates on our investments;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in governmental regulations, tax rates and similar matters;
- changes in our business strategy;
- availability of investment opportunities in commercial real estate-related and commercial finance assets;
- the degree and nature of our competition;
- the adequacy of our cash reserves and working capital; and
- the timing of cash flows, if any, from our investments.

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

PART I

ITEM 1. BUSINESS

General

We are a specialty finance company that focuses primarily on commercial real estate and commercial finance. We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of commercial real estate debt and other real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We have financed virtually all 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.

We are externally managed by Resource Capital Manager, Inc., which we refer to as the Manager, a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ-GS: REXI), a specialized asset management company that uses industry specific expertise to generate and administer investment opportunities for its own account and for outside investors in the commercial finance, real estate, and financial fund management sectors. As of December 31, 2009, Resource America managed approximately $13.3 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

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Our investments targeted asset classes as follows:

Asset Class	Principal Investments
Commercial real estate-related assets	· First mortgage loans, which we refer to as whole loans · First priority interests in first mortgage real estate loans, which we refer to as A notes · Subordinated interests in first mortgage real estate loans, which we refer to as B notes · Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party financing · Commercial mortgage-backed securities, which we refer to as CMBS
Commercial finance assets	· Senior secured corporate loans, which we refer to as bank loans · Other asset-backed securities, which we refer to as other ABS, · Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes · Debt tranches of collateralized debt obligations and collateralized loan obligations, which we refer to as CDOs and CLOs, respectively

Beginning in the second half of 2007, there have been unprecedented disruptions in the credit markets, abrupt and significant devaluations of assets directly or indirectly linked to the U.S. real estate finance markets, and the attendant removal of liquidity, both long and short term, from the capital markets. These conditions have had, and we expect will continue to have, an adverse effect on us and companies we finance. During the years ended December 31, 2009 and 2008, we recorded provisions for loan and lease losses of $61.4 million and $46.2 million, respectively. We also recorded net impairment losses during the year ended December 31, 2009 of $13.5 million on our available-for-sale and held-to-maturity securities. In addition, we recorded losses through other comprehensive income of $47.6 million and $46.9 million on our available-for-sale portfolio as of December 31, 2009 and 2008, respectively.

The events occurring in the credit markets have impacted our financing strategies. Historically, we have used CDOs as a principal source of long-term match-funded financing; however, the market for securities issued by new securitizations collateralized by assets similar to those in our investment portfolio has largely disappeared, and we do not expect to be able to sponsor new securitizations for the foreseeable future. The availability of short-term financing through warehouse lines of credit and repurchase agreements has contracted severely as a result of the increased volatility in the valuation of assets similar to those we originate. These events have impacted (and we expect will continue to impact) our ability to grow and finance our business on a long-term, match-funded basis and our ability to build our investment portfolio securities.

We calculate our distributions to our shareholders based on our estimate of our REIT taxable income, which may vary greatly from our net income calculated in accordance with U.S. generally accepted accounting principles, or GAAP. We expect that our REIT taxable income will be comprised primarily of our net investment income and our fee income. We expect that our REIT taxable income will be greater than our GAAP net income primarily because asset impairments and provisions for loan and lease losses are not deductible until realized for tax purposes as well as net book to tax adjustments for our taxable foreign REIT subsidiaries and fee income received by our taxable REIT

subsidiaries, or TRSs, that is dividended to us and included in our REIT taxable income but deferred or eliminated for GAAP purposes. For further discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Business Strategy

The core components of our business strategy are:

Managing our investment portfolio. As of December 31, 2009, we managed $1.8 billion of assets, including $1.6 billion of assets financed and held in CDOs. The core of our management process is credit analysis which we use to actively monitor our existing investments and as a basis for evaluating new investments. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes, and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stresses. After making an investment, the Manager and Resource America engage in active monitoring of our investments for early detection of troubled and deteriorating securities. If a default occurs, we will use our senior management team's asset management skills to mitigate the severity of any losses, and we will seek to optimize the recovery from assets if we foreclose upon them.

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Managing our interest rate and liquidity risk. We generally seek to manage interest rate and liquidity risk so as to reduce the effects of interest rate changes on us. On our long-term financing we seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. Historically, we have used CDO vehicles structured for us by our Manager to achieve this goal. Currently, we finance new investments through existing capacity in our CDOs or through cash available from principal repayments on or payoffs of existing investments. We also seek to mitigate interest rate risk through derivative instruments.

Historically, we managed our interest rate and liquidity risk on our short-term financing, principally repurchase agreements, by limiting the amount of our financial exposure under the facilities to either a stated investment amount or a fixed guaranty amount. As a result of current market conditions, as of December 31, 2009 we had paid off our short term repurchase agreements.

Investment in real estate and commercial finance assets. We expect to continue to invest in commercial real estate whole loans, B notes, mezzanine debt, CMBS rated below AAA by Standard & Poors, or S&P, commercial finance assets, including bank loans, and to a lesser extent, direct financing leases and notes, subject to the availability of investment funds and financing. Our equity at December 31, 2009 was invested 76.4% in commercial real estate loans, 23.2% in commercial bank loans and 0.4% in direct financing lease and notes. In 2010, we expect to recycle capital within our CDO structures to make a limited amount of new investments to replace loans that have been paid down or paid off and to replace loans that may be sold.

Debt repurchase. We have been able to take advantage of market illiquidity that resulted in limited trading of our CRE CDO notes by buying these debt securities at substantial discounts to par. This strategy, which has generated significant gains on the extinguishment of the debt, has allowed us to offset credit losses in the loan and lease portfolio and impairment losses in the investment securities portfolio. In 2009, we bought $55.5 million par value of our CRE CDO debt at a discount to par of 80.23% for approximately $11.0 million (or approximately $0.20 on the dollar). As a result, our gain on the extinguishment of debt for 2009 was $44.5 million which offset in part the credit and impairment losses we realized in 2009.

Diversification of investments. We seek to manage our investment risk by maintaining a diversified portfolio of real estate-related and commercial finance assets. As funds become available for investment or reinvestment, we seek to maintain that diversification while allocating our capital to those sectors that we believe are the most economically attractive. The percentage of assets that we may invest in certain of our targeted asset classes is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from Investment Company Act regulation.

Our Operating Policies and Strategies

Investment guidelines. We have established investment policies, procedures and guidelines that are reviewed and approved by our investment committee and board of directors. The investment committee meets regularly to monitor the execution of our investment strategies and our progress in achieving our investment objectives. As a result of our investment strategies and targeted asset classes, we acquire our investments primarily for income. We do not have a policy that requires us to focus our investments in one or more particular geographic areas.

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

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

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

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Credit and risk management policies. Our Manager focuses its attention on credit and risk assessment from the earliest stage of the investment selection process. In addition, the Manager screens and monitors all potential investments to determine their impact on maintaining our REIT qualification under federal income tax laws and our exclusion from investment company status under the Investment Company Act of 1940. Risks related to portfolio management, including the management of risks related to credit losses, interest rate volatility, liquidity and counterparty credit are generally managed on a portfolio-by-portfolio basis by each of Resource America's asset management divisions, although there is often interaction and cooperation between divisions in this process.

Our Investment Strategy

General

The following table describes our investment-class allocations and certain characteristics of each class as of December 31, 2009 (dollars in thousands):

	Amortized cost	Estimated fair value (1)	Percent of portfolio	Weighted average coupon
Loans Held for Investment:				
Commercial real estate loans:				
Mezzanine loans	$ 182,686	$ 176,117	11.1%	4.82%
B notes	81,477	80,283	5.0%	6.07%
Whole loans	484,195	460,612	29.0%	5.50%
Bank loans	865,501	827,951	52.1%	2.91%
	1,613,859	1,544,963	97.2%	
Investments in Available-for-Sale Securities:				
CMBS	92,110	44,518	2.8%	4.69%
Other ABS	24	24	–%	2.74%
	92,134	44,542	2.8%	
Investments in direct financing leases and notes	2,067	927	–%	9.30%
Total portfolio/weighted average	$ 1,708,060	$ 1,590,432	100.0%	4.08%

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

Commercial Real Estate-Related Investments

Whole loans. We originate first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enables us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan, consisting of an A note (described below), B notes (described below), mezzanine loans or other participations, which we may hold or sell to third parties. We do not obtain ratings on these investments. At origination, our whole loan investments had loan to value, or LTV, ratios of up to 80%. We expect to hold our whole loans to their maturity. In 2008 and 2009, we modified 28 commercial real estate loans which in many cases involved adjusting LIBOR floors to bring the interest rates on these loans closer to market.

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

Subordinate interests in whole loans (B notes). We invest in subordinate interests in whole loans, referred to as B notes, which we either directly originate or purchase from third parties. B notes are loans secured by a first mortgage and subordinated to an A note. The subordination of a B note is generally evidenced by an intercreditor or participation agreement between the holders of the A note and the B note. In some instances, the B note lender may require a security interest in the stock or partnership interests of the borrower as part of the transaction. B note lenders have the same obligations, collateral and borrower as the A note lender, but typically are subordinated in recovery upon a default to the A note lender. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not obtain ratings on these investments. At the date of investment, our B note investments had LTV ratios of between 55% and 80%. Typical B note investments will have terms of three years to five years, and are generally structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold our B note investments to their maturity.

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In addition to the interest payable on the B note, we may earn fees charged to the borrower under the note or additional income by receiving principal payments in excess of the discounted price (below par value) we paid to acquire the note. Our ownership of a B note with controlling class rights may, in the event the financing fails to perform according to its terms, cause us to elect to pursue our remedies as owner of the B note, which may include foreclosure on, or modification of, the note. In some cases, the owner of the A note may be able to foreclose or modify the note against our wishes as owner of the B note. As a result, our economic and business interests may diverge from the interests of the owner of the A note.

Mezzanine financing. We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Our mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. At the date of investment, our mezzanine investments had LTV ratios between 65% and 90%. We expect the stated maturity of our mezzanine financings to range from three to five years. Mezzanine loans may have maturities that match the maturity of the related mortgage loans but may have shorter or longer terms. We expect to hold these investments to maturity.

The following charts describe the loan type, property type and the geographic breakdown of our commercial real estate loan portfolio as of December 31, 2009 (based on par value):

Loan Type

Property Type

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Geographic by State

As these charts demonstrate, our portfolio contains a diversified mix of property types with approximately 93% of the portfolio focus on four types, Multifamily 29%, Office 23%, Hotel 30% and Retail 11%.

Our geographic mix includes approximately 39% in California, or CA, which we split into Southern (25%) and Northern (14%) regions. Within the Southern CA region, we have 86% of our portfolio in whole loans and 82% in four property types, Hotel 48%, Office 15%, Retail 12% and Multifamily 7%. Within the Northern CA region, we have 86% of our portfolio in whole loans and 86% in two property types, Multifamily 63% and Retail 23%. As noted in these statistics, this portfolio is made up primarily of whole loans where we are able to better control the structure of the loan and maintain a direct lending relationship with the borrower. We view the investment and credit strategy as being adequately diversified across property type and loan type across both the Southern and Northern CA regions.

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

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

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.

Other Real Estate Investments

We invest in joint ventures and other interests that finance the acquisition of distressed commercial properties and mortgage loans on distressed commercial properties. These interests have the objective of repositioning the directly owned properties and the collateral underlying the mortgages, where applicable, to enhance their value and realize capital appreciation. During 2009, these investments did not constitute a material portion of our assets. During 2010, depending upon our capital position, credit market conditions and the availability of investment opportunities, we may seek to expand our investments in this area. Our investment is included in investments in unconsolidated subsidiaries at December 31, 2009 on our consolidated balance sheet.

Residential Real Estate-Related Investments

Historically, we had invested in agency RMBS and non-agency ABS-RMBS portfolios. We sold our agency RMBS portfolio in September 2006. We sold 10% of the equity invested in Ischus CDO II in November 2007 and as a result, impaired the investment by $26.3 million in 2007. As a result of the sale, we deconsolidated the variable interest entity that owned the portfolio in the quarter ended December 31, 2007 and recovered the balance of our remaining investment in 2008. We do not anticipate investing in agency RMBS or non-agency RMBS for the foreseeable future.

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Commercial Finance Investments

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

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

The following chart describes the industry breakdown of our bank loans as of December 31, 2009 (based on par value):

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

Industry	Percentage
CLO securities	3.8%
Aerospace and defense	2.8%
Leisure, Amusement, Motion Pictures, Entertainment	2.8%
Buildings and real estate	2.2%
Beverage, food and tobacco	2.1%
Ecological	2.1%
Utilities	2.1%
Electronics	2.1%
Finance	2.1%
Containers, packaging and glass	1.8%
Oil and gas	1.8%
Personal and nondurable consumer products	1.7%
Machinery (non-agriculture, non-construction, non-electronic)	1.2%
Cargo transport	0.9%
Mining, steel, iron and non-precious metals	0.7%
Textiles and leather	0.6%
Insurance	0.5%
Home and office furnishings, housewares and durable consumer products	0.4%
Farming and agriculture	0.3%

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

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

The following charts describe the industry and the geographic breakdown of our equipment leases and notes as of December 31, 2009 (based on par value):

Equipment Lease and Notes by Industry

Geographic by State

Trust preferred securities and other ABS. We have one investment (less than 0.1% of our total assets) in trust preferred securities. Trust preferred securities are issued by a special purpose trust that holds a subordinated debenture or other debt obligation issued by a company to the trust. The sponsoring company holds the equity interest in the trust, with the preferred securities of the trust being sold to investors. The trust invests the proceeds of the preferred securities in the sponsoring company through the purchase of a debenture issued by it that tracks the terms of the trust preferred securities. Issuers of trust preferred securities 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.

Competition

See “Risk Factors” - “Risks Relating to Our Business”

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Management Agreement

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

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

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

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

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

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

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

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

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

In conjunction with the December 2009 common stock offering, we and Resource America agreed that for the quarters ending on December 31, 2009 and March 31, 2010, the total incentive management fee payable to the Manager pursuant to the Amended and Restated Management Agreement dated as of June 30, 2008, shall not exceed $1.5 million per quarter.

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

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

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

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

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

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

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

We believe that RCC Real Estate, Inc., the subsidiary that as of December 31, 2009 held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this

exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, which we refer to as "qualifying real estate assets." Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued, and does not intend to issue, redeemable securities.

We treat our investments in whole mortgage loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy-remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth

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in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides future guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. Historically, we have held "whole pool certificates" in mortgage loans, although, at December 31, 2009, we had no whole pool certificates in our portfolios. Pursuant to existing SEC staff guidance, we consider whole pool certificates to be qualifying real estate assets. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a qualifying real estate asset for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test. We do not expect that investments in CDOs, other ABS, bank loans, equipment leases and notes, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

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

Our other subsidiaries, RCC Commercial, Inc. and Resource TRS, Inc. do not qualify for the Section 3(c)(5)(C) exclusion. However, we believe they qualify for exclusion under either Section 3(c)(1) or 3(c)(7). As required by these exclusions, we will not allow either entity to make, or propose to make, a public offering of its securities. In addition, with respect to those subsidiaries for which we rely upon the Section 3(c)(1) exclusion, and as required thereby, we limit the number of holders of their securities to not more than 100 persons calculated in accordance with the attribution rules of Section 3(c)(1) and, with respect to those subsidiaries for which we rely on the Section 3(c)(7) exclusion, and as required thereby, we limit ownership of their securities to "qualified purchasers." If we form other subsidiaries, we must ensure that they qualify for an exemption or exclusion from regulation under the Investment Company Act.

Moreover, we must ensure that Resource Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We will do so by monitoring the value of our interests in our subsidiaries. At all times, we must ensure that Resource Capital Corp. meets the 40% test. Our interest in RCC Real Estate does not constitute an "investment security" for purposes of the 40% test, but our interest in RCC Commercial does, and our interest in Resource TRS may in the future, constitute "investment securities." Accordingly, we must monitor the value of our interest in these two subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets.

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

Employees

We have no direct employees. Under our management agreement, the Manager provides us with all management and support personnel, including a Chief Financial Officer, and services necessary for our day-to-day operations. Pursuant to an amendment on October 16, 2009, the Manager will provide us with three accounting professionals, each of whom will be exclusively dedicated to our operations, and a director of investor relations who will be 50% dedicated to our operations. The amendment also provides we will bear the expense of the wages, salaries and benefits of the Chief Financial Officer and three accounting professionals, and 50% of the salary and benefits of the director of investor relations. We depend upon the Manager and Resource America for personnel and administrative infrastructure. To provide its services, the Manager draws upon the expertise and experience of Resource America. As of December 31, 2009, Resource America had 721 employees involved in asset management, including 118 asset management professionals and 603 asset management support personnel, respectively.

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Corporate Governance and Internet Address

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

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

ITEM 1A. RISK FACTORS

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

Impact of Current Economic Conditions

Continuance of current economic conditions could further harm our financial condition, income and ability to make distributions to our stockholders.

Beginning in mid-2007 and continuing through the date of this report, the financial system in the United States, including credit markets and markets for real estate and real estate-related assets, has been subject to unprecedented turmoil. This turmoil has resulted in severe limitations on the availability of credit, significant declines in the value of real estate and real estate related assets, impairment of the ability of many borrowers to repay their obligations and illiquidity in the markets for real estate and real estate-related assets. These events have had significant adverse effects on us including incurrence of impairment charges with respect to investments we hold, significant increases in our provision for loan losses and the unavailability of financing to support new investments. As a result, our income, our ability to make distributions and the price of our common stock have declined significantly. Continuation of current economic conditions could further harm our financial condition, income, ability to make distributions to our stockholders and the price of our common stock.

Actions taken by the U.S. government and governmental agencies may not reverse, or even stabilize, current economic conditions.

In response to current economic and market conditions, the U.S. government and a number of governmental agencies have established or proposed a series of programs designed to stabilize the financial system and credit markets, including programs established pursuant to the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Tax Act of 2009. We are unable to evaluate whether these programs have had or will have in the future their intended effect, or, if they have effects in the future, whether they will have a beneficial impact

upon our financial condition, income or ability to make distributions to our stockholders or if the proposed programs will be instituted in their current form.

Risks Related to Our Financing

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

Our portfolio has been financed in material part through the use of leverage. Using leverage subjects us to risks associated with debt financing, including the risks that:

- the cash provided by our operating activities will not be sufficient to meet required payments of principal and interest,

- the cost of financing may increase relative to the income from the assets financed, reducing the income we have available to pay distributions, and

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

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

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

Under current economic and market conditions we are significantly constrained in our ability to obtain the capital and financing necessary for growth. As a result, our profitability, ability to make distributions and the market price of our common stock have been harmed. Continuation or further deterioration of current conditions could further harm our profitability, ability to make distributions and the market price of our common stock.

We depend upon the availability of adequate funding and capital for our operations. Although we successfully completed an offering of common stock in December 2009, in general, our ability to obtain debt financing and, to a lesser extent, equity capital has been significantly constrained as a result of current economic and market conditions, which has impaired our profitability, our ability to make distributions and the market price of our common stock. Moreover, 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. While the newly-promulgated Rev. Proc. 2010-12, allows us to satisfy this requirement by distributing common shares for up to 90% of the amount of a required distribution, such regulatory relief is currently only available through December 2011. 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 depend upon the availability of financing and additional capital to provide us with the funding necessary to permit growth. Continuation or further deterioration of current economic and market conditions could further impair our ability to acquire and finance assets, thereby reducing or eliminating our profitability and ability to make distributions, impairing the market price of our common stock. Moreover, even if funding or capital were available, we cannot assure you that it would be on terms that would enable us to strengthen our profitability or ability to make distributions.

Historically, we have financed most of our investments through CDOs and have retained the equity. CDO equity receives distributions from the CDO only if the CDO generates enough income to first pay the holders of its debt securities and its expenses.

We have financed most of our investments through CDOs in which we retained the equity interest. Depending on market conditions, credit availability, and resolution of current credit market conditions, we may seek to use CDOs to finance our investments in the future. The equity interests of a CDO are subordinate in right of payment to all other securities issued by the CDO. The equity is usually entitled to all of the income generated by the CDO after the CDO pays all of the interest due on the debt securities and other expenses. However, there will be little or no income available to the CDO equity if there are excessive defaults by the issuers of the underlying collateral which would significantly reduce the value of that interest. Reductions in the value of the equity interests we have in a CDO, if we determine that they are other than temporary, will reduce our earnings. In addition, the equity securities of CDOs are generally illiquid, and because they represent a leveraged investment in the CDO's assets, the value of the equity securities will generally have greater fluctuations than the value of the underlying collateral.

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

Our CDOs generally provide that the principal amount of their assets must exceed the principal balance of the related securities issued by them by a certain amount, commonly referred to as "over-collateralization." The CDO terms provide that, if delinquencies and/or losses exceed specified levels based on the analysis by the rating agencies (or any financial guaranty insurer) of the characteristics of the assets collateralizing the securities issued by the CDO issuer, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses or delinquencies did not exceed those levels. In addition, a failure by a CDO to satisfy an over-collateralization test typically results in accelerated distributions to the holders of the senior debt securities issued by the CDO entity. Our equity holdings and, when we acquire debt interests in CDOs, our debt interests, if any, are subordinate in right of payment to the other classes of debt securities issued by the CDO entity. Accordingly, if overcollateralization tests are not met, distributions on the subordinated debt and equity we hold in these CDOs will cease, resulting in a substantial reduction in our cash flow. Other tests (based on delinquency levels or other criteria) may restrict our ability to receive cash distributions from assets collateralizing the securities issued by the CDO entity. Although at December 31, 2009, all of our CDOs met their performance tests, we cannot assure you that our CDOs will satisfy the performance tests in the future.

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

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

Any debt securities we may issue in the future will likely be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Holders of senior securities may be granted the right to hold a perfected security interest in certain of our assets, to accelerate payments due under the indenture if we breach financial or other covenants, to restrict distributions, and to require approval to sell assets. These covenants could limit our ability to operate our business or manage our assets effectively. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock. We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities.

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

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

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

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

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

- Using short-term financing to accumulate assets for a CDO issuance may require us to obtain new financing as the short-term financing matures. Residual financing may not be available on acceptable terms, or at all. Moreover, an increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would reduce returns on our assets, which would reduce earnings and, in turn, cash available for distribution to our stockholders.

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

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

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

- Available interest rate hedges may not correspond directly with the interest rate risk against which we seek protection.
- The duration of the hedge may not match the duration of the related liability.
- Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.

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- Losses on a hedge position may reduce the cash available to make distributions to stockholders, and may exceed the amounts invested in the hedge position.

- The amount of income that a REIT may earn from hedging transactions, other than through a TRS, is limited by federal tax provisions governing REITs.

- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction.

- The party owing money in the hedging transaction may default on its obligation to pay.

We have adopted written policies and procedures governing our hedging activities. Under these policies and procedures, our board of directors is responsible for approving the types of hedging instruments we may use, absolute limits on the notional amount and term of a hedging instrument and parameters for the credit-worthiness of hedge counterparties. The senior managers responsible for each of our targeted asset classes are responsible for executing transactions using the services of independent interest rate risk management consultants, documenting the transactions, monitoring the valuation and effectiveness of the hedges, and providing reports concerning our hedging activities and the valuation and effectiveness of our hedges, to the audit committee of our board of directors no less often than quarterly. Our guidelines also require us to engage one or more experienced third party advisors to provide us with assistance in the identification of interest rate risks, the analysis, selection and timing of risk protection strategies, the administration and negotiation of hedge documentation, settlement or disposition of hedges, compliance with hedge accounting requirements and measurement of hedge effectiveness and valuation.

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

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

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

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into puts and calls on securities or indices of securities, interest rate swaps, caps and collars, including options and forward contracts, and interest rate lock agreements, principally Treasury lock agreements, to seek to hedge against mismatches between the cash flows from our assets and the interest payments on our liabilities. Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory and commodity and other

regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we entered into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we seek to reserve the right to terminate our hedging positions, we may not always be able to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. A liquid secondary market may not exist for hedging instruments purchased or sold, and we may have to maintain a position until exercise or expiration, which could result in losses.

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

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

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Approximately 94% of our hedging arrangements are with a single counterparty and, as a consequence, our hedging strategy may fail if that counterparty defaults in its obligations.

As of December 31, 2009, approximately 94% of our outstanding hedges, with a notional amount of $217.9 million, were with Credit Suisse International, or CS. Were CS to default in its obligations under these hedging arrangements, we would lose the hedge protection for which we had contracted which, depending upon market conditions, could result in significant losses to us. We cannot assure you that we could replace the defaulted hedges or that the terms of any replacement hedges we could obtain would be on similar terms, or as to the cost to us of obtaining replacement hedges.

Risks Related to Our Operations

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

Subject to maintaining our qualification as a REIT and our exclusion from regulation under the Investment Company Act, we may change our investment strategy, including the percentage of assets that may be invested in each class, or in the case of securities, in a single issuer, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this report. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations, all of which may reduce the market price of our common stock and impair our ability to make distributions to stockholders. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this report.

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

Risks Related to Our Investments

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

We classify a substantial portion of our assets for accounting purposes as "available-for-sale." As a result, changes in the market values of those assets are directly charged or credited to accumulated other comprehensive loss and could reduce our stockholders' equity. A decline in these values will reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale asset is other than temporary, we are required by GAAP to record the decline as an asset impairment which will reduce our earnings. As a result of market conditions for our "available-for-sale" investments, we recognized $12.6 million of other-than-temporary impairment through our consolidated statements of operations during the year ended December 31, 2009.

A decline in the market value of our assets may also adversely affect us in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we would have to repay some portion or all of the loan, which would require us to sell assets, which could potentially be under adverse market conditions. As a result, our earnings would be reduced or we could sustain losses, and cash available to make distributions could be reduced or eliminated.

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

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

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

Subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act, we invest in mezzanine debt and expect to invest in mezzanine or other subordinated tranches of CMBS, bank loans and other ABS. These types of investments carry a higher degree of risk of loss than senior secured debt investments such as our whole loan investments because, in the event of default and foreclosure, holders of senior liens will be paid in full before mezzanine investors and, depending on the value of the underlying collateral at the time of foreclosure, there may not be sufficient assets to pay all or any part of amounts owed to mezzanine investors. Moreover, our mezzanine and other subordinate debt investments may have higher LTV ratios than conventional senior lien financing, resulting in less equity in the collateral and increasing the risk of loss of principal. If a borrower defaults or declares bankruptcy, we may be subject to agreements restricting or eliminating our rights as a creditor, including rights to call a default, foreclose on collateral, accelerate maturity or control decisions made in bankruptcy proceedings. In addition, the prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to economic downturns or individual issuer developments because the ability of obligors of instruments underlying the securities to make principal and interest payments may be impaired. In such event, existing credit support relating to the securities' structure may not be sufficient to protect us against loss of our principal.

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

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

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

On occasion, we have made private equity investments. Typically, these investments are subordinate to debt financing and are not secured. Should the issuer default on our investment, we would only be able to proceed against the entity that issued the private equity in accordance with the terms of the security, and not any property owned by the entity. In the event of bankruptcy or foreclosure, we would only be able to recoup our investment after any lenders to the entity are paid. As a result, we may not recover some or all of our investment, which could result in losses. Moreover, depending upon the existence of a market for the issuer's securities, the length of time we have held the investment and any rights we may have to require registration under the Securities Act, these investments may be highly illiquid so that we may not be able to sell these investments at times we would like to do so or at prices that reflect our cost or the value of the investment on our financial statements.

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

We currently hold, and expect that we will hold in the future, portfolio investments that are not publicly traded, 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 value these investments quarterly at fair value as determined under policies approved by our board of directors. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have obtained if a ready market for them existed. The value of our common stock will likely decrease if our determinations regarding the fair value of these investments are materially higher than the values that we ultimately realize upon their disposal.

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

Subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act, we invest in bank loans and other ABS. Our bank loan investments or our other ABS investments, which are principally backed by small business and bank loans, may not be secured by mortgages or other liens on assets or may involve higher LTV ratios than our real estate-related investments. Our bank loan investments, and our ABS backed by loans, involve loans with a par amount of $178.1 million at December 31, 2009 that have an interest-only payment schedule or a schedule that does not fully amortize principal over the term of the loan, which will make repayment of the loan depend upon the borrower’s liquidity or ability to refinance the loan at maturity. Numerous factors affect a borrower’s ability to repay or refinance loans at maturity, including national and local economic conditions, a downturn in a borrower’s industry, loss of one or more principal customers and conditions in the credit markets. A deterioration in a company’s financial condition or prospects may be accompanied by a deterioration in the collateral for the bank loan or any ABS backed by such company’s loans.

Risks Related to Our Manager

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

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

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

The Manager is entitled to receive a monthly base management fee equal to 1/12 of our equity, as defined in the management agreement, times 1.50%, regardless of the performance of our portfolio. The Manager’s entitlement to substantial non-performance based compensation might reduce its incentive to devote its time and effort to seeking profitable opportunities for our portfolio. This in turn could hurt our ability to make distributions to our stockholders.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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Risks Related to Real Estate Investments

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

A B note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B note owners after payment to the senior note owners. Since each transaction is privately negotiated, B notes can vary in their structural characteristics and risks. For example, the rights of holders of B notes to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each B note investment we will make. Further, B notes typically are secured by a single property, and so reflect the increased risks associated with a single property compared to a pool of properties. B notes also are less liquid than other forms of commercial real estate debt investments, such as CMBS, and, as a result we may be unable to dispose of underperforming or non-performing investments. The higher risks associated with the subordinate position of our B note investments could subject us to increased risk of loss.

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

Commercial mortgage loans are secured by, and mezzanine loans depend on, the performance of the underlying, multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss, that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by or dependent upon an income-producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things:

- tenant mix, success of tenant businesses and property management decisions,
- property location and condition,
- competition from comparable types of properties,
- changes in laws that increase operating 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 the conditions of specific industry segments in which our lessees may operate,
- declines in regional or local real estate values,
- declines in regional or local rental or occupancy rates,
- increases in interest rates, real estate tax rates and other operating expenses,

- increases in costs of construction material;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation, and
- acts of God, terrorism, social unrest and civil disturbances.

Although we currently hold no residential mortgage loans in our portfolio, in the past our portfolio has included substantial residential mortgage investments. Residential mortgage loans are subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay these loans depends upon the borrower's income or assets. A number of factors, including national, regional or local economic downturns, acts of God, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans. Economic problems specific to a borrower, such as loss of a job or medical problems, may also impair a borrower's ability to repay his or her loan.

We risk loss of principal on defaulted mortgage loans we hold to the extent of any deficiency between the value of the collateral we can realize and the principal and accrued interest of the mortgage loan. Moreover, foreclosure of a mortgage loan can be an expensive and lengthy process which could reduce the net amount we can realize on the foreclosed mortgage loan. In a bankruptcy of a mortgage loan borrower, the mortgage loan will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy as determined by the bankruptcy court, and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

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

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Risks Related to Our Organization and Structure

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

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

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

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

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

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

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

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

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

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders’ meeting or if the acquiring person does not deliver an acquiring person statement as required by the Maryland Control Share Acquisition Act then, subject to specific conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders’ meeting and the acquiror

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

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

- any person who beneficially owns ten percent or more of the voting power of the corporation’s shares; or

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

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

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

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

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

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

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

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

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

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

Our right to take action against the Manager is limited.

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

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

distributions.

We expect to make quarterly distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to make distributions may be impaired by the risk factors described in this report. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We may not be able to make distributions in the future. In addition, some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated taxable earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes. A return of capital is not taxable, but it has the effect of reducing the holder's tax basis in its investment. Although we currently do not expect that we will do so, we have in the past and may in the future also use proceeds from any offering of our securities that we have not invested or borrowed funds to make distributions. If we use uninvested offering proceeds to pay distributions in the future, we will have less funds available for investment and, as a result, our earnings and cash available for distribution would be less than we might otherwise have realized had such funds been invested. Similarly, if we borrow to fund distributions, our future interest costs would increase, thereby reducing our future earnings and cash available for distribution from what they otherwise would have been.

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

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

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

If the market value or income potential of our real estate-related investments declines as a result of current economic conditions, increased interest rates, prepayment rates or other factors, we may need to increase our real estate-related investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exclusion from 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.

Tax Risks

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

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

In particular, at least 75% of our assets at the end of each calendar quarter must consist of real estate assets, government securities, cash and cash items. For this purpose, “real estate assets” generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other entities that qualify as REITs, interests in mortgage loans secured by real property, investments in stock or debt instruments during the one-year period following the receipt of new capital and regular or residual interests in a real estate mortgage investment conduit, or REMIC. In addition, the amount of securities of a single issuer, other than a TRS, that we hold must generally not exceed either 5% of the value of our gross assets or 10% of the vote or value of such issuer’s outstanding securities.

Certain of the assets that we hold or intend to hold, including interests in CDOs or corporate leveraged loans, are not qualified and will not be qualified real estate assets for purposes of the REIT asset tests. ABS-RMBS and CMBS securities should generally qualify as real estate assets. However, to the extent that we own non-REMIC collateralized mortgage obligations or other debt instruments secured by mortgage loans (rather than by real property) or secured by non-real estate assets, or debt securities that are not secured by mortgages on real property, those securities are likely not qualifying real estate assets for purposes of the REIT asset test, and will not produce qualifying real estate income. Further, whether securities held by warehouse lenders or financed using repurchase agreements are treated as qualifying assets or as generating qualifying real estate income for purposes of the REIT asset and income tests depends on the terms of the warehouse or repurchase financing arrangement.

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

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

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

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

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

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

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

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.

We believe that we have been organized and operated in a manner that has enabled us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended on December 31, 2005. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing

qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

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

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

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

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

We intend to make distributions to our stockholders in a manner intended to satisfy the 90% distribution requirement and to distribute all or substantially all of our net taxable income to avoid both corporate income tax and the 4% nondeductible excise tax. There is no requirement that a domestic TRS distribute its after-tax net income to its parent REIT or their stockholders and Resource TRS may determine not to make any distributions to us. However, non-U.S. TRSs, such as Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, which we discuss in "Management's Discussion and Analysis of Financial Conditions and Results of Operations," will generally be deemed to distribute their earnings to us on an annual basis for federal income tax purposes, regardless of whether such TRSs actually distribute their earnings.

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

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."

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

A REIT may own up to 100% of the securities of one or more TRSs. A TRS may earn specified types of income or hold specified assets that would not be qualifying income or assets if earned or held directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% for our 2009 and prior taxable years) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns, whether or not it distributes that income to us. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Resource TRS will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. Income that is not distributed to us by Resource TRS will not be subject to the REIT 90% distribution requirement and therefore will not be available for distributions to our stockholders. We anticipate that the aggregate value of the securities of Resource TRS, together with the securities we hold in our other TRSs, including Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, will be less than 25% of the value of our total assets, including our TRS securities. We will monitor the compliance of our investments in TRSs with the rules relating to value of assets and transactions not on an arm's-length basis. We cannot assure you, however, that we will be able to comply with such rules.

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.

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

We likely will be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs, including from our current and contemplated equity investments in CDOs, such as our investment in Apidos CDO I, Apidos CDO III and Apidos Cinco CDO. We intend to treat certain of these income inclusions as qualifying income for purposes of the 95% gross income test applicable to REITs but not for purposes of the REIT 75% gross income test. The provisions that set forth what income is qualifying income for purposes of the 95% gross income test provide that gross income derived from dividends, interest and other enumerated classes of passive income qualify for purposes of the 95% gross income test. Income inclusions from equity investments in our foreign TRSs are technically neither dividends nor any of the other enumerated categories of income specified in the 95% gross income test for U.S. federal income tax purposes, and there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests. However, based on advice of counsel, we intend to treat such income inclusions, to the extent distributed by a foreign TRS in the year accrued, as qualifying income for purposes of the 95% gross income test. Nevertheless, because this income does not meet the literal requirements of the REIT provisions, it is possible that the IRS could successfully take the position that it is not qualifying income. In the event that it was determined not to qualify for the 95% gross income test, we would be subject to a penalty tax with respect to the income to the extent it and other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT. See "Federal Income Tax Consequences of Our Qualification as a REIT." In addition, if such income was determined not to qualify for the 95% gross income test, we would need to invest in sufficient qualifying assets, or sell some of our interests in our foreign TRSs to ensure that the income recognized by us from our foreign TRSs or such other corporations does not exceed 5% of our gross income, or cease to qualify as a REIT.

The failure of a loan subject to a repurchase agreement or a mezzanine loan to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.

We have entered into and we intend to continue to enter into sale and repurchase agreements under which we nominally sell certain of our loan assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we have been and will be treated for U.S. federal income tax purposes as the owner of the loan assets that are the subject of any such agreement notwithstanding that the agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the loan assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

In addition, we have acquired and will continue to acquire mezzanine loans, which are loans secured by equity interest in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We have acquired and will continue to acquire mezzanine loans that may not meet all of the requirements for reliance on this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge the loan's treatment as a real estate asset for purposes of the REIT asset and income tests, and if the challenge were sustained, we could fail to qualify as a REIT.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Philadelphia, Pennsylvania:

We maintain offices through our Manager. Our Manager maintains executive and corporate offices at One Crescent Drive in the Philadelphia Navy Yard under a lease for 13,484 square feet that expires in May 2019. Certain of its financial fund management and real estate operations are also located in these offices. Our Manager also leases 21,554 square feet for additional executive office space and for certain of our real estate operations at 1845 Walnut Street, Philadelphia, Pennsylvania. This lease expires in May 2013.

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ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. [OMITTED AND RESERVED]

Omitted and Reserved pursuant to SEC Release 33-9089A.

PART II

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

Market Information

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

	High	Low	Dividends Declared	
Fiscal 2009				
Fourth Quarter	$ 5.40	$ 4.33	$ 0.25	(1)
Third Quarter	$ 6.21	$ 2.76	$ 0.30	
Second Quarter	$ 3.89	$ 2.96	$ 0.30	
First Quarter	$ 3.83	$ 1.50	$ 0.30	
Fiscal 2008				
Fourth Quarter	$ 6.09	$ 1.74	$ 0.39	
Third Quarter	$ 7.63	$ 4.84	$ 0.39	
Second Quarter	$ 9.78	$ 7.21	$ 0.41	
First Quarter	$ 10.28	$ 6.00	$ 0.41	

(1) We distributed a regular dividend of $0.25 paid on January 26, 2010, to stockholders of record as of December 31, 2009.

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

As of March 8, 2010, there were 38,938,950 common shares outstanding held by 168 persons of record.

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

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

In accordance with the provisions of the management agreement, on January 31, 2009 and October 31, 2009 we issued 26,097 and 143,334 shares of common stock, respectively, to our Manager. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2008 and for the three months ended September 30, 2008, respectively. The issuance of these shares was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

Performance Graph

The following line graph presentation compares cumulative total shareholder returns of our common stock with the Russell 2000 Index and the NAREIT All REIT Index for the period from February 10, 2006 to December 31, 2009. The graph and table assume that $100 was invested in each of our common stock, the Russell 2000 Index and the NAREIT All REIT Index on February 10, 2006, and that all dividends were reinvested. This data was furnished by the Research Data Group.

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF
RESOURCE CAPITAL CORP AND SUBSIDIARIES

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

	As of and for the years ended December 31,				As of and for the Period from March 8, 2005 (Date Operations Commended) to December 31,
	2009	2008	2007	2006	2005
Consolidated Statement of Operations Data:					
REVENUES					
Interest income	$97,593	$134,341	$176,995	$137,075	$ 61,387
Interest expense	45,427	79,619	121,564	101,851	43,062
Net interest income	52,166	54,722	55,431	35,224	18,325
OPERATING EXPENSES	16,059	12,438	13,415	11,144	7,728
NET OPERATING INCOME	36,107	42,284	42,016	24,080	10,597
OTHER (EXPENSES) REVENUES					
Impairment losses on investment securities	(27,490)	(26,611)	(48,853)	(2,612)	–
Recognized in other comprehensive loss	(14,019)	(26,611)	(22,576)	(2,612)	–
Net impairment losses recognized in earnings	(13,471)	–	(26,277)	–	–
Net realized gains/(losses) on investments	1,890	(1,637)	(15,098)	(8,627)	311
Gain on deconsolidation	–	–	14,259	–	–
Provision for loan and lease losses	(61,383)	(46,160)	(6,211)	–	–
Gain on the extinguishment of debt	44,546	1,750	–	–	–
Gain on the settlement of loan	–	574	–	–	–
Other (expense) income	(1,350)	115	201	153	–
Total other (expenses) revenues	(29,768)	(45,358)	(33,126)	(8,474)	311
NET INCOME (LOSS)	$6,339	$(3,074)	$8,890	$15,606	$ 10,908
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$51,991	$14,583	$6,029	$5,354	$ 17,729
Restricted cash	85,125	60,394	119,482	30,721	23,592

Investment securities available-for-sale, pledged as collateral, at fair value	39,304	22,466	65,464	420,997	1,362,392
Investment securities available-for-sale, at fair value	5,238	6,794	–	–	28,285
Investment securities held-to-maturity, pledged as collateral	31,401	28,157	18,517	3,978	–
Loans, net of allowances of $47.1 million, $43.9 million, $0, $0 and $0	1,558,687	1,684,622	1,748,122	1,236,310	569,873
Loans held for sale	8,050	–	–	–	–
Direct financing leases and notes, net of allowances of $1.1 million, $450,000, $293,000, $0 and $0 and net of unearned income	927	104,015	95,030	88,970	23,317
Total assets	1,795,184	1,936,031	2,072,148	1,802,829	2,045,547
Borrowings	1,536,500	1,699,763	1,760,969	1,463,853	1,833,645
Total liabilities	1,566,354	1,749,726	1,800,542	1,485,278	1,850,214
Total stockholders’ equity	228,830	186,305	271,606	317,551	195,333
Per Share Data:					
Dividends declared per common share	$1.15	$1.60	$1.62	$1.49	$ 0.86
Net income (loss) per share – basic	$0.25	$(0.12)	$0.36	$0.89	$ 0.71
Net income (loss) per share – diluted	$0.25	$(0.12)	$0.36	$0.87	$ 0.71
Weighted average number of shares outstanding – basic	25,205,403	24,757,386	24,610,468	17,538,273	15,333,334
Weighted average number of shares outstanding – diluted	25,355,821	24,757,386	24,860,184	17,881,355	15,405,714

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information to assist you in understanding our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward looking statements. Please see "Forward-Looking Statements" and "Risk Factors" for a discussion of certain risks, uncertainties and assumptions associated with those statements.

Overview

We are a specialty finance company that focuses primarily on commercial real estate and commercial finance. We are organized and conduct our operations to qualify as a REIT under Subchapter M of the Internal Revenue Code of 1986, as amended. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and have sought to mitigate interest rate risk through derivative instruments.

We are externally managed by Resource Capital Manager, Inc., a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ-GS: REXI), or Resource America, a specialized asset management company that uses industry specific expertise to generate and administer investment opportunities for its own account and for outside investors in the commercial finance, real estate, and financial fund management sectors. As of December 31, 2009, Resource America managed approximately $13.3 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets and hedge interest rate risks. We generate revenues from the interest and fees we earn on our whole loans, A notes, B notes, mezzanine debt, commercial mortgage-backed securities, or CMBS, bank loans, payments on equipment leases and notes and other asset-backed securities, or ABS. Historically, we have used a substantial amount of leverage to enhance our returns and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. In our bank loans, CMBS, equipment leases and notes and other ABS, we historically have used warehouse facilities as a short-term financing source and collateralized debt obligations, or CDOs, and, to a lesser extent, other term financing as a long-term financing source. In our commercial real estate loan portfolio, we historically have used repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as a long-term financing source. Our other term financing has consisted of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs, depending upon market conditions and credit availability.

Ongoing problems in real estate and credit markets continue to impact our operations, particularly our ability to generate capital and financing to execute our investment strategies. These problems have also affected a number of our commercial real estate borrowers and, with respect to 28 of our commercial real estate loans, caused us to enter into loan modifications. We have increased our provision for loan and lease losses to reflect the effect of these conditions on our borrowers and have recorded both temporary and other than temporary impairments in the market

valuation of the CMBS and other ABS in our investment portfolio. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2009, we cannot assure you that further impairments will not occur or that our assets will otherwise not be adversely effected by market conditions.

The events occurring in the credit markets have impacted our financing and investing strategies and, as a result, our ability to originate new investments and to grow. The market for securities issued by new securitizations collateralized by assets similar to those in our investment portfolio has largely disappeared. Since our sponsorship in June 2007 of Resource Real Estate Funding CDO 2007-1, or RREF CDO 2007-1, we have not sponsored any new securitizations and we do not expect to be able to sponsor new securitizations for the foreseeable future. Short-term financing through warehouse lines of credit and repurchase agreements has become largely unavailable and unreliable as increasing volatility in the valuation of assets similar to those we originate has increased the risk of margin calls. To reduce our exposure to margin calls or facility terminations, we have fully paid down repurchase agreement borrowings, by $17.1 million during the year ended December 31, 2009, which finance commercial real estate loans and other securities that we hold. We no longer have any outstanding short-term borrowings. Because of rising U.S. treasury rates and hedge contracts that matured, we received proceeds from margin calls related to our interest rate derivatives of $3.1 million during the year ended December 31, 2009.

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Credit market conditions and the recessionary economy have also resulted in an increasing number of loan modifications, particularly in our commercial real estate loans. Borrowers have experienced deterioration in the performance of the properties we have financed or delays in implementing their business plans. In order to assist our borrowers in effectuating their business plans, including the leasing and repositioning of the underlying assets, we have been willing to enter into loan modifications that would adapt our financing to their particular situations. The most common loan modifications have included term extensions and modest interest rate reductions through the lowering of London Interbank Offered Rate, or LIBOR, floors, offset by increased interest rate spreads over LIBOR. In exchange for the loan modifications, we have received partial principal pay-downs, new equity investment commitments in the properties from the borrowers or their principals, additional fees and other structural improvements and enhancements to the loans. Since the beginning of 2008 through December 31, 2009, we have modified 28 commercial real estate, or CRE, loans. Management determined that one of these modifications was due to financial distress of the borrower and accordingly, qualified as a troubled debt restructuring. We expect that we may have more CRE loan modifications in the future. Subsequent to year end, management modified an additional loan due to financial stress of the borrower.

Currently, we seek to manage our liquidity and originate new assets primarily through capital recycling as loan payoffs and paydowns occur and through existing capacities within our completed securitizations. The following is a summary of repayments we received during the year ended December 31, 2009:

- $22.0 million of commercial real estate loans paid off;
- $46.4 million of commercial real estate loan principal repayments;
- $109.0 million of bank loan principal repayments; and
- $128.8 million of bank loan sale proceeds.

We have used recycled capital in our CRE CDO and bank loan CLO structures to make new investments at discounts to par. This reinvested capital and the related discount will produce additional income as the discount is accreted through interest income. In addition, the purchase of these investments at discounts allows us to build collateral in the CDO and CLO structures since we receive credit in these structures for these investments at par. During 2009, we purchased CMBS with $51.7 million par value at a discount to par of 47.4% and bank loans with $285.5 million par value at a discount to par of 12.2%. From the net discounts of approximately $24.5 million and $34.8 million, we expect to recognize income from accretion of these discounts of approximately $3.8 million and $7.2 million in our CMBS and bank loan portfolio, respectively, in 2010.

As of December 31, 2009, we had fully repaid all of our outstanding repurchase agreements with an aggregate balance of $17.1 million (including accrued interest) at December 31, 2008.

As of December 31, 2009, we had invested 76.4% of our portfolio in CRE assets, 23.2% in commercial bank loans and 0.4% in direct financing leases and notes. As of December 31, 2008, we had invested 72.2% of our portfolio in CRE assets, 24.8% in commercial bank loans and 3.0% in direct financing leases and notes.

Results of Operations

Our net income for the year ended December 31, 2009 was $6.3 million, or $0.25 per share (basic and diluted), as compared to a net loss of $3.1 million, or ($0.12) per share (basic and diluted), for the year ended December 31, 2008, and compared to net income of $8.9 million, or $0.36 per share (basic and diluted), for the year ended December 31,

2007.

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Interest Income

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

	Years Ended December 31,		
	2009	2008	2007
Interest income:			
Interest income from loans:			
Bank loans	$35,770	$53,172	$68,978
Commercial real estate loans	48,793	63,936	67,895
Total interest income from loans	84,563	117,108	136,873
Interest income from securities:			
Non-agency RMBS	–	–	21,837
CMBS	–	–	1,394
CMBS-private placement	5,404	4,425	4,082
Securities held-to-maturity	1,807	1,934	1,205
Other ABS	14	19	1,496
Total interest income from securities available-for-sale	7,225	6,378	30,014
Leasing	4,336	8,180	7,553
Interest income – other:			
Interest income – other (1)	–	997	–
Temporary investment in over-night repurchase agreements	1,469	1,678	2,555
Total interest income – other	1,469	2,675	2,555
Total interest income	$97,593	$134,341	$176,995

(1) Represents cash received on our 90% equity investment in Ischus CDO II in excess of our investment. Income on this investment was recognized using the cost recovery method.

	Year Ended December 31, 2009 Weighted Average		Year Ended December 31, 2008 Weighted Average		Year Ended December 31, 2007 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest income:						
Interest income from loans:						
Bank loans	3.87%	$ 943,854	5.62%	$ 947,753	7.42%	$ 911,514
Commercial real estate loans	6.12%	$ 785,380	7.48%	$ 840,874	8.58%	$ 781,954
Interest income from securities:						

Non-agency RMBS	–%	$ –	–%	$ –	7.09%	$ 303,960
CMBS	–%	$ –	–%	$ –	5.67%	$ 24,549
CMBS-private placement	5.90%	$ 90,784	5.76%	$ 76,216	6.45%	$ 61,952
Securities held-to-maturity	5.28%	$ 33,249	7.72%	$ 25,782	9.48%	$ 13,236
Other ABS	4.98%	$ 281	0.32%	$ 6,000	6.96%	$ 21,094
Leasing	6.88%	$ 65,300	8.68%	$ 94,864	8.71%	$ 85,092

Year Ended December 31, 2009 as compared to Year Ended December 31, 2008

Aggregate interest income decreased $36.7 million (27%) to $97.6 million for the year ended December 31, 2009, from $134.3 million for the year ended December 31, 2008. We attribute this decrease to the following:

Interest Income from Loans

Aggregate interest income from loans decreased $32.5 million (28%) to $84.6 million for the year ended December 31, 2009 from $117.1 million for the year ended December 31, 2008.

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Bank loans generated $35.8 million of interest income for the year ended December 31, 2009 as compared to $53.2 million for the year ended December 31, 2008, a decrease of $17.4 million (33%). This decrease resulted primarily from a decrease in the weighted average yield earned by our bank loans to 3.87% for the year ended December 31, 2009 from 5.62% for the year ended December 31, 2008. This was principally a result of the decrease in LIBOR which is a reference index for the rates payable on these loans. The effects of the decrease in the weighted average rate were partially offset by an increase of $6.0 million in accretion income as a result of the purchase of assets at discounts during the year ended December 31, 2009.

Commercial real estate loans produced $48.8 million of interest income for the year ended December 31, 2009 as compared to $63.9 million for the year ended December 31, 2008, a decrease of $15.1 million (24%). This decrease resulted from the following:

- a decrease in the weighted average balance of assets of $55.5 million to $785.4 million for the year ended December 31, 2009 from $840.9 million for the year ended December 31, 2008 primarily as a result of payoffs and paydowns and to a lesser extent as a result of interest adjustments taken on several loans; and

- a decrease in the weighted average yield on our assets to 6.12% for the year ended December 31, 2009 from 7.48% for the year ended December 31, 2008 primarily due to decreases in LIBOR floors, which is a reference index for the rates payable on these loans from loan modifications during 2009. Management determined that five of these modifications was due to financial distress of the borrower and accordingly, qualified as a troubled debt restructuring. There were $401.3 million of loans with a weighted average LIBOR floor of 4.71% as of December 31, 2008 and that decreased to $310.9 million of loans with a weighted average LIBOR floor of 2.37% as of December 31, 2009.

Interest Income from Securities

Aggregate interest income from securities increased $847,000 (13%) to $7.2 million for the year ended December 31, 2009 from $6.4 million for the year ended December 31, 2008. The increase in interest income from securities available-for-sale resulted principally from the following:

CMBS-private placement increased $993,000 (22%) to $5.4 million for the year ended December 31, 2009 from $4.4 million for the year ended December 31, 2008. The increase is primarily attributed to the following:

- an increase in the weighted average balance of assets of $14.6 million to $90.8 million for the year ended December 31, 2009 from $76.2 million for the year ended December 31, 2008 primarily as a result of the purchase of $54.8 million par value of assets during the year ended December 31, 2009, principally during the last half of the year; and

- an increase in the weighted average yield to 5.90% for the year ended December 31, 2009 from 5.76% for the year ended December 31, 2008 primarily as a result of an increase of $1.0 million in accretion income from assets purchased at discounts during the year ended December 31, 2009.

Interest Income - Leasing

Our equipment leasing portfolio generated $4.3 million of interest income for the year ended December 31, 2009 as compared to $8.2 million for the year ended December 31, 2008, a decrease of $3.8 million (47%). This decrease is primarily the result of our sale of the majority of the leasing portfolio, at par, as of June 30, 2009.

Interest Income - Other

Aggregate interest income-other decreased $1.2 million (45%) to $1.5 million for the year ended December 31, 2009, as compared to $2.7 million for the year ended December 31, 2008. The decrease in interest income-other resulted principally from the following:

- A decrease in interest income-other to $0 for the year ended December 31, 2009, as compared to $997,000 for the year ended December 31, 2008. The decrease is the result of our having disposed of the equity investment in Ischus CDO II in December 2008. Prior to that disposition, we used the cost recovery method to recognize the income on this investment. We sold our interest in Ischus CDO II in November 2007 and, as a result, deconsolidated it at that time. For the three months ended March 31, 2008, $997,000 of interest income was recognized on this investment. No such income has been recognized since March 2008.

- A decrease in interest from temporary investments in over-night repurchase agreements of $209,000 (12%) to $1.5 million for the year ended December 31, 2009, as compared to $1.7 million for the year ended December 31, 2008 primarily as a result of lower rates earned on our over-night repurchase agreements.

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Year Ended December 31, 2008 as compared to Year Ended December 31, 2007

Aggregate interest income decreased $42.7 million (24%) to $134.3 million for the year ended December 31, 2008, from $177.0 million for the year ended December 31, 2007. We attribute this decrease to the following:

Interest Income from Loans

Aggregate interest income from loans decreased $19.8 million (14%) to $117.1 million for the year ended December 31, 2008 from $136.9 million for the year ended December 31, 2007.

Bank loans generated $53.2 million of interest income for the year ended December 31, 2008 as compared to $69.0 million for the year ended December 31, 2007, a decrease of $15.8 million (23%). This decrease resulted primarily from a decrease in the weighted average yield earned by our bank loans to 5.62% for the year ended December 31, 2008 from 7.42% for the year ended December 31, 2007. This was principally a result of the decrease in LIBOR which is a reference index for the rates payable on these loans. The effects of the decrease in the weighted average rate were partially offset by an increase of $36.3 million in the weighted average balance of assets to $947.8 million for the year ended December 31, 2008 from $911.5 million for the year ended December 31, 2007 as a result of the acquisition of investments for our third bank loan CDO, Apidos Cinco CDO, which closed in May 2007. The year ended December 31, 2008 includes a full year of income on the increased asset base.

Commercial real estate loans produced $63.9 million of interest income for the year ended December 31, 2008 as compared to $67.9 million for the year ended December 31, 2007, a decrease of $4.0 million (6%). This decrease resulted primarily from a decrease in the yield on these loans to 7.48% for the year ended December 31, 2008 from 8.58% for the year ended December 31, 2007, primarily due to the decrease in LIBOR which is a reference index for the rates payable on some of these loans. The effects of the decrease in the weighted average rate were partially offset by an increase of $58.9 million in the weighted average balance of loans to $840.9 million for the year ended December 31, 2008 from $782.0 million for the year ended December 31, 2007 as a result of the accumulation of investments by our second commercial real estate CDO, RREF CDO 2007-1 which closed on June 26, 2007 and had $463.0 million of assets at December 31, 2007. The year ended December 31, 2008 includes a full year of income on the increased asset base.

Interest Income from Securities

Aggregate interest income from securities decreased $23.6 million (79%) to $6.4 million for the year ended December 31, 2008 from $30.0 million for the year ended December 31, 2007. The decrease in interest income from securities resulted principally from the following:

Interest income from our asset-backed securities-residential mortgage-backed securities, or ABS-RMBS, CMBS and other ABS portfolio generated $21.8 million, $1.4 million and $1.5 million, respectively for the year ended December 31, 2007. No interest income from ABS-RMBS and CMBS was generated during the year ended December 31, 2008. The other ABS portfolio generated $19,000 for the year ended December 31, 2008. These decreases are primarily a result of the deconsolidation of Ischus CDO II on November 13, 2007.

The decrease in interest income from securities available-for-sale was partially offset by interest income on our CMBS-private placement portfolio which increased $343,000 (8%) to $4.4 million for the year ended December 31, 2008 from $4.1 million for the year ended December 31, 2007. The increase is primarily attributed to an increase of $14.3 million in the weighted average balance of these assets to $76.2 million for the year ended December 31, 2008 as compared to $62.0 million for the year ended December 31, 2007 as a result of the accumulation of assets by RREF CDO 2007-1, which closed on June 26, 2007 and had $463.0 million of assets at December 31, 2007. The year ended

December 31, 2008 includes a whole year of income for these assets. The effects of the increase in the weighted average balance were partially offset by a decrease in the yield on these securities to 5.76% for the year ended December 31, 2008 from 6.45% for the year ended December 31, 2007, primarily due to the decrease in LIBOR which is a reference index for the rates payable on some of these securities.

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The decrease in interest income from securities available-for-sale was also partially offset by interest income on our securities held-to-maturity which increased $729,000 (61%) to $1.9 million for the year ended December 31, 2008 from $1.2 million for the year ended December 31, 2007. The increase is primarily attributed to an increase of $12.5 million in the weighted average balance of these assets to $25.8 million for the year ended December 31, 2008 as compared to $13.2 million for the year ended December 31, 2007 as a result of the accumulation of assets by Apidos Cinco CDO, which closed in May 2007. The year ended December 31, 2008 includes a whole year of income for these assets. The effects of the increase in the weighted average balance were partially offset by an decrease in the yield on these securities to 7.72% for the year ended December 31, 2008 from 9.48% for the year ended December 31, 2007, primarily due to the decrease in LIBOR which is a reference index for the rates payable on most of these securities.

Interest Income - Leasing

Our equipment leasing portfolio generated $8.2 million of interest income for the year ended December 31, 2008 as compared to $7.6 million for the year ended December 31, 2007, an increase of $627,000 (8%). This increase resulted from the increase of $9.8 million in the weighted average balance of leases to $94.9 million at December 31, 2008 from $85.1 million for the year ended December 31, 2007, primarily from the addition of leases to our portfolio in 2008.

Interest Income - Other

Aggregate interest income-other increased $120,000 (5%) to $2.7 million for the year ended December 31, 2008, as compared to $2.6 million for the year ended December 31, 2007. The increase in interest income from interest income – other resulted principally from the following:

- Interest income – other was $997,000 for the year ended December 31, 2008 as compared to $0 for the year ended December 31, 2007. The income for 2008 was the result of income from our equity method investment in Ischus CDO II. We used the cost recovery method to recognize the income on this investment. We sold our interest in Ischus CDO II in November 2007 and, as a result, deconsolidated it at that time. For the three months ended March 31, 2008, $997,000 of interest income was recognized on this investment. No such income has been recognized since March 31, 2008.

- The increase in interest income – other was partially offset by interest earned on temporary investments in over-night repurchase agreements which decreased $877,000 (34%) to $1.7 million for the year ended December 31, 2008 as compared to $2.6 million for the year ended December 31, 2007 primarily due to lower rates.

Interest Expense

Year Ended December 31, 2009 as compared to Year Ended December 31, 2008

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

	Years Ended December 31,		
	2009	2008	2007
Interest expense:			
Bank loans	$15,394	$35,165	$52,466
Commercial real estate loans	11,072	27,924	37,184

Non-agency / CMBS / ABS	–	–	19,794
CMBS-private placement	–	163	1,223
Leasing	2,143	4,357	5,595
General	16,818	12,010	5,302
Total interest expense	$45,427	$79,619	$121,564

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	Year Ended December 31, 2009 Weighted Average		Year Ended December 31, 2008 Weighted Average		Year Ended December 31, 2007 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest expense:						
Bank loans	1.68%	$ 906,000	3.82%	$ 906,000	5.96%	$ 868,345
Commercial real estate loans	1.70%	$ 649,258	3.91%	$ 696,492	6.29%	$ 582,173
Non-agency / CMBS / ABS	–%	$ –	–%	$ –	5.93%	$ 326,458
CMBS-private placement	–%	$ –	4.34%	$ 3,597	5.84%	$ 20,571
Leasing	4.42%	$ 44,388	4.67%	$ 89,778	6.68%	$ 83,405
General	5.01%	$ 322,720	3.00%	$ 383,860	9.91%	$ 51,981

Year Ended December 31, 2009 as compared to Year Ended December 31, 2008

Aggregate interest expense decreased $34.2 million (43%) to $45.4 million for the year ended December 31, 2009, from $79.6 million for the year ended December 31, 2008. We attribute this decrease to the following:

Interest expense on bank loans was $15.4 million for the year ended December 31, 2009, as compared to $35.2 million for the year ended December 31, 2008, a decrease of $19.8 million (56%). This decrease resulted primarily from a decrease in the weighted average yield on this debt to 1.68% for the year ended December 31, 2009 from 3.82% for the year ended December 31, 2008 as a result of the decrease in LIBOR which is a reference index for the rates payable on most of these notes.

Interest expense on commercial real estate loans was $11.1 million for the year ended December 31, 2009, as compared to $27.9 million for the year ended December 31, 2008, a decrease of $16.9 million (60%). This decrease resulted from the following:

- a decrease in the weighted average yield on our financings to 1.70% for the year ended December 31, 2009 from 3.91% for the year ended December 31, 2008 primarily due to the decrease in LIBOR which is a reference index for the rates payable on a vast majority of these borrowings; and

- a decrease in the weighted average balance of $47.2 million to $649.3 million for the year ended December 31, 2009 from $696.5 million for the year ended December 31, 2008 as a result of our buyback of $55.5 million in notes and the payoff of $17.1 million in repurchase agreement debt during the year.

Interest expense on CMBS-private placement was $0 for the year ended December 31, 2009, as compared to $163,000 for the year ended December 31, 2008 due to the elimination of advance rates on our pledged CMBS-private placement collateral in November 2008 as a result of policy changes surrounding advance rates by our lender.

Interest expense on our equipment leasing portfolio was $2.1 million for the year ended December 31, 2009, as compared to $4.4 million for the year ended December 31, 2008, a decrease of $2.2 million (51%). The decrease for the year ended December 31, 2009 is primarily the result of the sale of most of the leasing portfolio and the simultaneous transfer of all of the related debt to Resource America who purchased the leases, at par, as of June 30, 2009.

The decrease in interest expense was partially offset by an increase in general interest expense. General interest expense was $16.8 million for the year ended December 31, 2009, as compared to $12.0 million for the year ended December 31, 2008, an increase of $4.8 million (40%). This increase resulted primarily from an increase of $5.6 million on our interest rate derivatives that fix the rate we pay under these agreements. During the year ended December 31, 2009 and 2008, the fixed rate we paid exceeded the floating rate we received due to the decrease in LIBOR. The increase in derivative expense was partially offset by a decrease in interest expense related to our unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities as a result of a decrease in the LIBOR rate which is a reference index for the rates payable by these debentures. This decrease in LIBOR was partially offset by an increase in the spread on this debt as a result of an amendment to the indentures for this debt in September 2009.

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Year Ended December 31, 2008 as compared to Year Ended December 31, 2007

Aggregate interest expense decreased $41.9 million (35%) to $79.6 million for the year ended December 31, 2008, from $121.6 million for the year ended December 31, 2007. We attribute this decrease to the following:

Interest expense on bank loans was $35.2 million for the year ended December 31, 2008, as compared to $52.5 million for the year ended December 31, 2007, a decrease of $17.3 million (33%). This decrease resulted primarily from a decrease in the weighted average yield on this debt to 3.82% for the year ended December 31, 2008 from 5.96% for the year ended December 31, 2007 as a result of the decrease in LIBOR which is a reference index for the rates payable on most of these notes. The effects of the decrease in the weighted average rate were partially offset by an increase of $37.7 million in the weighted average balance of debt to $906.0 million for the year ended December 31, 2008 from $868.3 million for the year ended December 31, 2007 as a result of the closing of Apidos Cinco CDO. The year ended December 31, 2008 reflects a full year of expense on this portfolio.

Interest expense on commercial real estate loans was $27.9 million for the year ended December 31, 2008, as compared to $37.2 million for the year ended December 31, 2007, a decrease of $9.3 million (25%). This decrease resulted primarily from a decrease in the weighted average yield on our financings to 3.91% for the year ended December 31, 2008 from 6.29% for the year ended December 31, 2007 primarily due to the decrease in LIBOR which is a reference index for the rates payable on a majority of these borrowings. The effects of the decrease in the weighted average rate were partially offset by an increase of $114.3 million in the weighted average balance of debt to $696.5 million for the year ended December 31, 2008 from $582.2 million for the year ended December 31, 2007 primarily from the accumulation of investments of our second CRE CDO, RREF CDO 2007-1 which closed on June 26, 2007 and issued $348.9 million of debt at that time. The year ended December 31, 2008 reflects a full year of expense on this debt.

Non-agency RMBS, CMBS and other ABS, which we refer to collectively as ABS, were pooled and financed by Ischus CDO II. Interest expense related to these obligations was $19.8 million for the year ended December 31, 2007. There was no such interest expense for the year ended December 31, 2008 due to the deconsolidation of Ischus CDO II on November 13, 2007.

Interest expense on CMBS-private placement was $163,000 for the year ended December 31, 2008, as compared to $1.2 million for the year ended December 31, 2007, a decrease of $1.1 (87%) million due the following:

- a decrease in the weighted average balance of debt of $17.0 million to $3.6 million for the year ended December 31, 2008 from $20.6 for the year ended December 31, 2007 primarily from the reduction in advance rates on our pledged CMBS-private placement collateral, which resulted in $15.8 million in pay-downs on the related repurchase agreement debt; and

- a decrease in the weighted average rate on our financings to 4.34% for the year ended December 31, 2008 from 5.84% for the year ended December 31, 2007 primarily due to the decrease in LIBOR, which is a reference index for the rates payable on a majority of these borrowings.

Interest expense on our equipment leasing portfolio was $4.4 million for the year ended December 31, 2008, as compared to $5.6 million for the year ended December 31, 2007, a decrease of $1.2 million (22%). The decrease for the year ended December 31, 2008 resulted primarily from a decrease in the weighted average rate on this debt to 4.67% for the year ended December 31, 2008 from 6.68% for the year ended December 31, 2007. The decrease in rate was the result of the decrease in the commercial paper index, which is a reference index for the rate payable on the facility we used to finance this portfolio.

The decrease in interest expense was partially offset by an increase in general interest expense. General interest expense was $12.0 million for the year ended December 31, 2008, as compared to $5.3 million for the year ended December 31, 2007, an increase of $6.7 million (127%). This increase resulted primarily from an increase of $7.8 million on our interest rate derivatives that fix the rate we pay under these agreements. During the year ended December 31, 2008, the fixed rate we paid exceeded the floating rate we received due to the decrease in LIBOR. The increase in derivative expense was partially offset by a decrease in interest expense related to our unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities as a result of a decrease in the LIBOR rate which is a reference index for the rates payable by these debentures.

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Non-Investment Expenses

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

	Years Ended December 31,		
	2009	2008	2007
Non-investment expenses:			
Management fees-related party	$8,363	$6,301	$6,554
Equity compensation-related party	1,240	540	1,565
Professional services	3,866	3,349	2,911
Insurance	828	641	466
General and administrative	1,764	1,848	1,581
Income tax (benefit) expense	(2)	(241)	338
Total non-investment expenses	$16,059	$12,438	$13,415

Year Ended December 31, 2009 as compared to the Year Ended December 31, 2008

Management fees – related party increased $2.1 million (33%) to $8.4 million for the year ended December 31, 2009 as compared to $6.3 million for the year ended December 31, 2008. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement. The base management fees decreased by $750,000 (17%) to $3.8 million for the year ended December 31, 2009 as compared to $4.5 million for the year ended December 31, 2008. This decline was due to decreased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of significant additional provisions for loan and lease losses and asset impairments during 2009. Incentive management fees increased by $2.8 million (160%) to $4.6 million for the year ended December 31, 2009 from $1.8 million for the year ended December 31, 2008. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter. The increase is the result of fees of $3.1 million and $1.5 million for the three months ended September 30, 2009 and December 31, 2009, respectively, primarily as a result of the gains on extinguishment of debt we realized during the six months ended December 31, 2009.

Equity compensation – related party increased $700,000 (130%) to $1.2 million for the year ended December 31, 2009 as compared to $540,000 for the year ended December 31, 2008. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to several employees of Resource America who provide investment management services to us through our Manager. The increase in expense was primarily the result of an increase in our stock price and its impact on our quarterly remeasurement of unvested stock and options as well as issuances of new grants during the year.

Professional services increased $517,000 (15%) to $3.9 million for the year ended December 31, 2009 as compared to $3.3 million for the year ended December 31, 2008 due to an increase of $864,000 in legal fees due to restructurings of our CRE loans as well as compliance work performed. This increase was partially offset by a decrease in lease servicing expense of $455,000 as a result of the sale of the majority of the leasing portfolio on June 30, 2009.

Income tax benefit decreased $239,000 (99%) to a benefit of $2,000 for the year ended December 31, 2009 as compared to a benefit of $241,000 for the year ended December 31, 2008 due to an establishment of a valuation allowance against deferred tax assets related to Resource TRS, our domestic taxable REIT subsidiary.

Year Ended December 31, 2008 as compared to the Year Ended December 31, 2007

Management fees – related party decreased $253,000 (4%) to $6.3 million for the year ended December 31, 2008 as compared to $6.6 million for the year ended December 31, 2007. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement. The base management fees decreased by $537,000 (11%) to $4.5 million for the year ended December 31, 2008 as compared to $5.1 million for the year ended December 31, 2007. This decrease was due to decreased equity, a component in the formula by which base management fees are calculated, as a result of asset impairments and the eventual deconsolidation of Ischus CDO II and as a result of provisions for loan and lease losses during 2008. Incentive management fees increased by $284,000 (19%) to $1.8 million for the year ended December 31, 2008 from $1.5 million for the year ended December 31, 2007. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter. The increase for the year ended December 31, 2008 is primarily due to the fact that an incentive was paid for three quarters during the year ended December 31, 2008 and only for two quarters during the year ended December 31, 2007. No incentive management fee was paid for the quarters ended June 30, 2008, September 30, 2007 and December 31, 2007 because adjusted net income thresholds, as defined in the management agreement were not met.

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Equity compensation – related party decreased $1.0 million (66%) to $540,000 for the year ended December 31, 2008 as compared to $1.6 million for the year ended December 31, 2007. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to several employees of Resource America who provide investment management services to us through our Manager. The decrease in expense was primarily the result of an adjustment related to our quarterly remeasurement of unvested stock and options granted to the Manager to reflect changes in the fair value of our common stock as well as the vesting of the remaining grant of stock and options to the Manager on March 8, 2005. These decreases were partially offset by the issuance of new grants.

Professional services increased $438,000 (15%) to $3.3 million for the year ended December 31, 2008 as compared to $2.9 million for the year ended December 31, 2007 primarily due to the following:

- Increase of $151,000 in lease servicing expense for the year ended December 31, 2008 due to the increase in managed assets in the year ended December 31, 2008.
- Increase of $394,000 in legal fees due to compliance work performed.

These increases were offset by a decrease of $64,000 in audit and tax fees for the year ended December 31, 2008 due to the timing of when the services were performed and billed.

Income tax expense decreased $579,000 (171%) to a benefit of $241,000 for the year ended December 31, 2008 as compared to expense of $338,000 for the year ended December 31, 2007 due to a decrease in taxable income related to Resource TRS, our domestic taxable REIT subsidiary.

Other (Expense)/Income

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

	Years Ended December 31,		
	2009	2008	2007
Impairment losses on investment securities	$(27,490)	$(26,611)	$(48,853)
Recognized in other comprehensive loss	(14,019)	(26,611)	(22,576)
Net impairment losses recognized in earnings	(13,471)	–	(26,277)
Net realized gains (losses) on loans and investments	1,890	(1,637)	(15,098)
Gain on deconsolidation of VIE	–	–	14,259
Provision for loan and lease losses	(61,383)	(46,160)	(6,211)
Gain on the extinguishment of debt	44,546	1,750	–
Gain on the settlement of a loan	–	574	–
Other (expense) income	(1,350)	115	201
Total	$(29,768)	$(45,358)	$(33,126)

Year Ended December 31, 2009 as compared to Year Ended December 31, 2008

Net impairment losses recognized in earnings were $13.5 million during the year ended December 31, 2009 and consisted of other-than-temporary impairment losses of $6.9 million on two CMBS-private placement positions, $5.7 million on our other ABS position, and $895,000 on one of our investment securities held to maturity.

Net realized gains (losses) on loans and investments increased $3.5 million to a gain of $1.9 million for the year ended December 31, 2009 from a loss of $1.6 million for the year ended December 31, 2008. The primary component of the increased gain during the year ended December 31, 2009 was an increase of $1.4 million in net gains from the sale of loans and held-to-maturity securities in our Apidos portfolio. In addition, the year ended December 31, 2008 contains net losses of $2.0 million from the sale of CMBS – private placement securities as compared to $190,000 of gains during the year ended December 31, 2009, a net increase in gains of $2.2 million for the year ended December 31, 2009.

Other (expense) income increased $1.5 million to an expense of $1.4 million for the year ended December 31, 2009 as compared to income of $115,000 for the year ended December 31, 2008. The increase in expense was due to a charge of $1.4 million that was the result of an accrual for a liability related to a settlement on our equity position in the Ischus CDO II portfolio.

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Our provision for loan and lease losses increased $15.2 million (33%) to $61.4 million for the year ended December 31, 2009 as compared to $46.2 million for the year ended December 31, 2008. The provision for the year ended December 31, 2009 consisted of a $31.9 million provision on our commercial real estate portfolio, a $26.8 million provision on our bank loan portfolio and a $2.7 million provision on our direct financing leases and notes. The provision for the year ended December 31, 2008 consisted of a $30.5 million provision for loan loss on our bank loan portfolio, a $14.8 million provision on our commercial real estate portfolio and a $900,000 provision on our direct financing leases and notes. The principal reason for the increased provisions is overall worsening credit markets in 2009. We have increased our general allowance for loan and lease losses in 2009 by $8.0 million for bank loans, $8.1 million for CRE loans and $0.7 million on our leasing portfolio. Also, due to payment defaults, we took an $18.8 million provision on specifically impaired bank loans and a $2.0 million provision on our leasing portfolio during 2009. Lastly, because of a decision to liquidate a substantial portion of collateral in our largest CRE position, we took a $23.8 million provision on that portfolio of loans in 2009.

Gain on the extinguishment of debt increased $42.8 million during the year ended December 31, 2009 to $44.5 million for the year ended December 31, 2009 from $1.8 million for the year ended December 31, 2008. During the year ended December 31, 2009, we bought back $55.5 million of debt issued by RREF CDO 2006-1 and RREF CDO 2007-1. The notes, issued at par, were bought back as an investment by us at a weighted average price of 19.8% of par resulting in a gain of $44.5 million. During the year ended December 31, 2008, we bought back $5.0 million of debt issued by RREF CDO 2007-1. The notes, issued at par, were bought back as an investment by us at a price of 65% of par resulting in a gain of $1.8 million. The related deferred debt issuance costs were immaterial in all transactions.

Gain on the settlement of a loan during the year ended December 31, 2008 is due to the reimbursement of a loss related to the termination of a hedge after the paydown of a commercial real estate loan. Per the terms of the agreement, we were to be reimbursed for any such termination costs. There was no such transaction during the year ended December 31, 2009.

Year Ended December 31, 2008 as compared to Year Ended December 31, 2007

Net impairment losses on investment securities of $26.3 million during the year ended December 31, 2007 consisted entirely of other-than-temporary impairment on assets in our residential mortgage loan, or ABS-RMBS, portfolio held by Ischus CDO II. During the second and third quarters of 2007, we experienced illiquidity in the sub-prime market and deteriorating delinquency characteristics of the mortgages underlying Ischus CDO II's investments. These trends together with significant rating agency actions supported the need to further reevaluate the level of asset impairments in Ischus CDO II's ABS-RMBS portfolio. The asset impairments recorded reflected these declining market conditions. There was no such impairment for the year ended December 31, 2008. These impairments were partially recaptured as part of our gain on the deconsolidation of Ischus CDO II.

Net realized gains (losses) on loans and investments decreased $13.5 million (89%) to a loss of $1.6 million for the year ended December 31, 2008 from a loss of $15.1 million for the year ended December 31, 2007. Realized losses during the year ended December 31, 2008 consisted primarily of a loss of $2.0 million on the sale of one of our CMBS – private placement positions during the year. This loss was partially offset by gains of $252,000 and $112,000 on the sale of assets in our leasing and bank loan portfolio, respectively. Realized losses during the year ended December 31, 2007 consisted primarily of a $15.6 million realized gross loss on deconsolidation of Ischus CDO II.

Gain on deconsolidation of VIE of $14.3 million during the year ended December 31, 2007 is due to the deconsolidation of Ischus CDO II in November 2007. Ischus CDO II had previously been a consolidated entity.

Our provision for loan and lease losses increased $39.9 million (643%) to $46.2 for the year ended December 31, 2008 as compared to $6.2 million for the year ended December 31, 2007. The provision for the year ended December 31, 2008 consisted of a $30.5 million provision for loan loss on our bank loan portfolio, a $14.8 million provision on our commercial real estate portfolio and a $900,000 provision on our direct financing leases and notes. The provision for the year ended December 31, 2007 consisted of a $2.8 million provision for loan loss on our bank loan portfolio, a $3.2 million provision on our commercial real estate portfolio and a $293,000 provision for lease loss on our direct financing leases and notes. The principal reason for the increase in the provision for loan and lease losses was our increase of reserves on seven defaulted bank loans, one defaulted CRE loan and one CRE loan sold at a discount. We also increased our general reserves due to deteriorating credit market conditions.

Gain on the extinguishment of debt during the year ended December 31, 2008 is due to the buyback of $5.0 million of debt issued by RREF CDO 2007-1 in February 2008. The notes, issued at par, were bought back as an investment by us at a price of 65% of par resulting in a gain of $1.8 million. The related deferred debt issuance costs were immaterial. There was no such transaction during the year ended December 31, 2007.

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Gain on the settlement of loan during the year ended December 31, 2008 is due to the reimbursement of a loss related to the termination of a hedge after the paydown of a commercial real estate loan. Under the terms of the agreement, we were to be reimbursed for any such termination costs. There was no such transaction during the year ended December 31, 2007.

Financial Condition

Summary

Our total assets at December 31, 2009 were $1.8 billion as compared to $1.9 billion at December 31, 2008. The decrease in total assets was principally due to allowances with respect to our loans and loan repayments in our investment portfolio. The decrease in total assets from these loan repayments also resulted in a reduction of our borrowings as we repaid related debt. To a lesser extent, the decrease in our total assets was due to a reduction in the fair market value of our available-for-sale securities.

Investment Portfolio

The following tables summarize the amortized cost and net carrying amount of our investment portfolio as of December 31, 2009 and 2008, classified by interest rate type. The following table includes both (i) the amortized cost of our investment portfolio and the related dollar price, which is computed by dividing amortized cost by par amount, and (ii) the net carrying amount of our investment portfolio and the related dollar price, which is computed by dividing the net carrying amount by par amount (in thousands, except percentages):

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	Amortized cost (3)	Dollar price	Net carrying amount	Dollar price	Net carrying amount less amortized cost	Dollar price
December 31, 2009						
Floating rate						
CMBS-private placement	$ 32,043	100.00%	$ 11,185	34.91%	$ (20,858)	-65.09%
Other ABS	24	0.29%	24	0.29%	–	–%
B notes (1)	26,500	100.00%	26,283	99.18%	(217)	-0.82%
Mezzanine loans (1)	124,048	100.00%	123,033	99.18%	(1,015)	-0.82%
Whole loans (1)	403,890	99.98%	382,371	94.65%	(21,519)	-5.33%
Bank loans (2)	857,451	96.87%	798,614	90.23%	(58,837)	-6.65%
Bank loans held for sale (3)	8,050	78.88%	8,050	78.88%	–	–%
ABS held-to-maturity (4)	31,401	88.77%	21,287	60.18%	(10,114)	-28.59%
Total floating rate	1,483,407	97.23%	1,370,847	89.85%	(112,560)	-7.38%
Fixed rate						
CMBS – private placement	60,067	64.08%	33,333	35.56%	(26,734)	-28.52%
B notes (1)	54,977	100.05%	54,527	99.23%	(450)	-0.82%
Mezzanine loans (1)	58,638	100.28%	53,200	90.98%	(5,438)	-9.30%
Whole loans (1)	80,305	99.78%	79,647	98.96%	(658)	-0.82%
Equipment leases and loans (5)	2,067	100.05%	927	44.87%	(1,140)	-55.18%
Total fixed rate	256,054	88.38%	221,634	76.50%	(34,420)	-11.88%
Grand total	$ 1,739,461	95.82%	$ 1,592,481	87.72%	$ (146,980)	-8.10%
December 31, 2008						
Floating rate						
CMBS-private placement	$ 32,061	99.99%	$ 15,042	46.91%	$ (17,019)	-53.08%
Other ABS	5,665	94.42%	45	0.75%	(5,620)	-93.67%
B notes (1)	33,535	100.00%	33,434	99.70%	(101)	-0.30%
Mezzanine loans (1)	129,459	100.01%	129,071	99.71%	(388)	-0.30%
Whole loans (1)	431,985	99.71%	430,690	99.41%	(1,295)	-0.30%
Bank loans (2)	909,350	99.17%	577,598	62.99%	(331,752)	-36.18%
ABS held-to-maturity (4)	28,157	97.09%	4,818	16.61%	(23,339)	-80.48%
Total floating rate	1,570,212	99.36%	1,190,698	75.35%	(379,514)	-24.01%
Fixed rate						
CMBS – private placement	38,397	91.26%	14,173	33.69%	(24,224)	-57.57%
B notes (1)	55,534	100.11%	55,367	99.81%	(167)	-0.30%
Mezzanine loans (1)	81,274	94.72%	68,378	79.69%	(12,896)	-15.03%
Whole loans (1)	87,352	99.52%	87,090	99.23%	(262)	-0.29%
	104,465	99.38%	104,015	98.95%	(450)	-0.43%

Equipment leases and notes (4)								
Total fixed rate		367,022	97.55%		329,023	87.45%		(37,999)	-10.10%
Grand total	$	1,937,234	99.02%	$	1,519,721	77.68%	$	(417,513)	-21.34%

(1) Net carrying amount includes an allowance for loan losses of $29.3 million at December 31, 2009, allocated as follows: B notes ($0.7 million), mezzanine loans ($6.4 million) and whole loans ($22.2 million). Net carrying amount includes an allowance for loan losses of $15.1 million at December 31, 2008, allocated as follows: B notes ($0.3 million), mezzanine loans ($13.3 million) and whole loans ($1.5 million).

(2) The bank loan portfolio is carried at amortized cost less allowance for loan loss and was $839.6 million at December 31, 2009. The amount disclosed represents net realizable value at December 31, 2009, which includes $17.8 million allowance for loan losses at December 31, 2009. The bank loan portfolio was $908.7 million (net of allowance of $28.8 million) at December 31, 2008.

(3) Bank loans held for sale are carried at the lower of cost or market. Amortized cost is equal to fair value.

(4) ABS held to maturity are carried at amortized cost less other-than-temporary impairment.

(5) Net carrying amount includes a $1.1 million allowance for equipment leases and loans losses at December 31, 2009.

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Commercial Mortgage-Backed Securities-Private Placement. The determination of other-than-temporary impairment is a subjective process, and different judgments and assumptions could affect the timing of loss realization. We review our portfolios monthly and the determination of other-than-temporary impairment is made at least quarterly. We consider the following factors when determining if there is an other-than-temporary impairment on a security:

- the length of time the market value has been less than amortized cost;
- the severity of the impairment;
- the expected loss of the security as generated by third party software;
- credit ratings from the rating agencies;
- underlying credit fundamentals of the collateral backing the security; and
- our intent to sell as well as the likelihood that we will be required to sell the security before the recovery of the amortized cost basis.

At December 31, 2009 and 2008, we held $44.5 million and $29.2 million, respectively, net of unrealized gains of $2.6 million and $0, respectively, and net of unrealized losses of $50.2 million and $41.2 million at December 31, 2009 and 2008, respectively, of CMBS-private placement at fair value which for our positions purchased in 2009 is based on dealer quotes due to their higher ratings and more active markets and for our positions purchased prior to 2009 is based on taking a weighted average of the following three measures:

- an income approach utilizing an appropriate current risk-adjusted yield, time value and projected estimated losses from default assumptions based on analysis of underlying loan performance;
- quotes on similar-vintage, higher rate, more actively traded CMBS adjusted as appropriate for the lower subordination level of our securities; and
- dealer quotes on our securities for which there is not an active market.

In the aggregate, we purchased our CMBS-private placement portfolio at a discount. At December 31, 2009 and 2008, the remaining discount to be accreted into income over the remaining lives of the securities was $29.1 million and $3.7 million, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair value.

During the three months ended December 31, 2009, two collateral positions that supported the CMBS portfolio weakened to the point that default of these positions became probable. The assumed default of these collateral positions in our cash flow model yielded a value that would result in less than a full recovery of our cost basis. Accordingly, we recognized a $6.9 million other-than-temporary impairment on two of our CMBS investments during the three months ended December 31, 2009 bringing the combined fair value to $206,000. We recognized these impairments through the consolidated statements of operations.

While the remaining CMBS investments have continued to decline in fair value, their change continues to be temporary. We perform an on-going review of third-party reports and updated financial data with respect to the financial information on the underlying properties to analyze current and projected loan performance. Rating agency downgrades are considered with respect to our income approach when determining other-than-temporary impairment

and when inputs are stressed projected cash flows are adequate to recover principal.

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The following table summarizes our CMBS-private placement as of December 31, 2009 and 2008 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2009		December 31, 2008	
	Amortized Cost	Dollar Price	Amortized Cost	Dollar Price
Moody's Ratings Category:				
Aaa	$ 11,690	64.70%	$ –	– %
Aa1 through Aa3	9,639	50.73%	–	– %
A1 through A3	4,826	56.14%	–	– %
Baa1 through Baa3	2,021	33.68%	63,459	94.52%
Ba1 through Ba3	10,443	100.00%	–	– %
B1 through B3	24,449	85.27%	6,999	99.99%
Caa1 through Caa3	12,832	98.71%	–	– %
Ca through C	16,210	73.68%	–	– %
Total	$ 92,110	73.23%	$ 70,458	95.04%
S&P Ratings Category:				
AAA	$ 5,997	59.97%	$ –	– %
AA+ through AA-	3,659	40.65%	–	– %
A+ through A-	6,544	62.75%	–	– %
BBB+ through BBB-	11,955	59.49%	51,378	94.24%
BB+ through BB-	7,847	78.76%	19,080	97.26%
B+ through B-	9,081	90.81%	–	– %
CCC+ through CCC-	47,027	83.54%	–	– %
Total	$ 92,110	73.23%	$ 70,458	95.04%
Weighted average rating factor	2,971		830	

Other Asset-Backed Securities. At December 31, 2009, we held two other ABS positions with a fair value of $24,000 that is the result of other-than-temporary impairment of $5.7 million recognized during the year ended December 31, 2009. At December 31, 2008, we held one other ABS position with a fair value of $45,000, which was net of unrealized losses of $5.6 million. This security is classified as available-for-sale and carried at fair value.

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

Description	Number of Loans		Amortized Cost	Contracted Interest Rates	Maturity Dates (3)
December 31, 2009:					
Whole loans, floating rate (1)	32	$	403,890	LIBOR plus 1.50% to LIBOR plus 4.40%	May 2010 to February 2017
Whole loans, fixed rate (1)	6		80,305	6.98% to 10.00%	May 2010 to August 2012
B notes, floating rate	3		26,500	LIBOR plus 2.50% to LIBOR plus 3.01%	July 2010 to October 2010
B notes, fixed rate	3		54,977	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	10		124,048	LIBOR plus 2.15% to LIBOR plus 3.45%	May 2010 to January 2013
Mezzanine loans, fixed rate	5		58,638	8.14% to 11.00%	May 2010 to September 2016
Total (2)	59	$	748,358		
December 31, 2008:					
Whole loans, floating rate (1)	29	$	431,985	LIBOR plus 1.50% to LIBOR plus 4.40%	April 2009 to August 2011
Whole loans, fixed rate (1)	7		87,352	6.98% to 10.00%	May 2009 to August 2012
B notes, floating rate	4		33,535	LIBOR plus 2.50% to LIBOR plus 3.01%	March 2009 to October 2009
B notes, fixed rate	3		55,534	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	10		129,459	LIBOR plus 2.15% to LIBOR plus 3.45%	May 2009 to February 2010
Mezzanine loans, fixed rate	7		81,274	5.78% to 11.00%	November 2009 to September 2016
Total (2)	60	$	819,139		

(1) Whole loans had $5.6 million and $26.6 million in unfunded loan commitments as of December 31, 2009 and 2008, respectively, that are funded as the loans require additional funding and the related borrowers have satisfied the requirements to obtain this additional funding.

(2) The total does not include an allowance for loan losses of $29.3 million and $15.1 million recorded as of December 31, 2009 and 2008, respectively.

(3)

Excludes two floating rate whole loans. One whole loan matured in July 2009 and is in foreclosure. The other whole loan that matured is on a month-to-month extension. This loan is current with respect to interest.

We had one mezzanine loan, with a balance of $11.6 million secured by equity interests in two enclosed regional malls that went into default in February 2008. During the three months ended June 30, 2008, we recorded a provision for loan loss on the full balance. We do not expect to recover any of this loan balance.

We have a portfolio of whole loans, with a cost balance of $66.8 million secured by multifamily properties in Northern California. We decided to liquidate a substantial portion of the underlying collateral securing these loans and, as a result, we took an $18.8 million provision for loan loss during 2009. This portfolio of loans was restructured and modified in 2010 after the final sale of certain of the collateral properties. The modified loan balance after application of the 2010 sales proceeds of $8.3 million and the 2009 provisions taken was $39.7 million and is supported under its modified terms by the current cash flow from the remaining collateral properties. Management has determined that this was a troubled debt restructuring.

Bank Loans. At December 31, 2009, we held a total of $798.6 million of bank loans at fair value through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. This is an increase of $216.2 million over our holdings at December 31, 2008. The increase in total bank loans was principally due to improved market prices for bank loans during the year 2009. We own 100% of the equity issued by Apidos CDO I, Apidos CDO III and Apidos Cinco CDO which we have determined are variable interest entities, or VIEs, of which we are the primary beneficiary. See “-Variable Interest Entities.” As a result, we consolidated Apidos CDO I, Apidos CDO III and Apidos Cinco CDO as of December 31, 2008.

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The following table summarizes our bank loan investments as of December 31, 2009 and 2008 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2009		December 31, 2008	
	Amortized cost	Dollar price	Amortized cost	Dollar price
Moody's ratings category:				
Baa1 through Baa3	$ 38,419	98.09%	$ 16,732	97.71%
Ba1 through Ba3	404,609	96.91%	456,594	99.21%
B1 through B3	355,441	96.33%	397,157	99.10%
Caa1 through Caa3	44,265	99.79%	34,617	100.09%
Ca	13,697	88.68%	–	– %
No rating provided	9,070	91.64%	4,250	100.00%
Total	$ 865,501	96.67%	$ 909,350	99.17%
S&P ratings category:				
BBB+ through BBB-	$ 73,629	98.23%	$ 41,495	99.44%
BB+ through BB-	353,725	97.11%	473,354	99.03%
B+ through B-	337,193	96.12%	317,601	99.46%
CCC+ through CCC-	42,198	96.65%	26,886	100.02%
CC+ through CC-	3,104	100.13%	–	100.00%
C+ through C-	–	– %	1,075	100.00%
D	8,602	95.91%	1,480	100.00%
No rating provided	47,050	94.85%	47,459	97.85%
Total	$ 865,501	96.67%	$ 909,350	99.17%
Weighted average rating factor	2,131		1,982	

Asset-backed securities held-to-maturity. At December 31, 2009, we held a total of $21.3 million of ABS held-to-maturity at amortized cost through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. This is an increase of $16.5 million over our holdings at December 31, 2008. The increase in total ABS held-to-maturity was principally due to the purchase of $11.8 million par value of ABS held-to-maturity during the year ended December 31, 2009.

During the three months ended September 30, 2009, one collateral position that supported the ABS held-to-maturity weakened to the point that default of this position became probable. The assumed default of this collateral position in our cash flow model yielded a value that would result in less than a full recovery of our cost basis. Accordingly, we recognized an $895,000 other-than-temporary impairment on our ABS held-to-maturity investment during the three months ended September 30, 2009 bringing the combined fair value to $925,000. We recognized this impairment through the consolidated statements of operations.

The following table summarizes our ABS held-to-maturity, at cost as of December 31, 2009 and 2008 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2009		December 31, 2008	
	Amortized cost	Dollar price	Amortized cost	Dollar price

Moody’s ratings category:					
Aa1 through Aa3	$	2,854	82.89%	$	1,136	75.73%
A1 through A3		303	75.75%		6,351	97.71%
Baa1 through Baa3		–	– %		3,050	97.60%
Ba1 through Ba3		4,427	95.72%		15,187	98.78%
B1 through B3		4,240	97.58%		–	– %
Caa1 through Caa3		9,913	99.14%		–	– %
Ca		3,629	79.57%		–	– %
No rating provided		6,035	75.44%		2,433	97.32%
Total	$	31,401	88.77%	$	28,157	97.09%
S&P ratings category:						
No rating provided	$	31,401	88.77%	$	28,157	97.09%
Total	$	31,401	88.77%	$	28,157	97.09%
Weighted average rating factor		4,028			795	

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Equipment Leases and Notes. On June 30, 2009, we sold our sole membership interest in one of our subsidiaries that held a pool of leases valued at $89.8 million and transferred the $82.3 million balance of the related secured term facility to Resource America. No gain or loss was recognized on the sale of this membership interest. We received a note of $7.5 million from Resource America for the equity in the portfolio on June 30, 2009. The promissory note bore interest at LIBOR plus 3% and matured on September 30, 2009. On July 1, 2009, $4.5 million of the promissory note was repaid. The remaining outstanding principal balance of the note of $3.0 million was paid in full on August 3, 2009. The balance of equipment leases and notes was $927,000 and $104.0 million as of December 31, 2009 and 2008, respectively.

Interest Receivable. At December 31, 2009, we had interest receivable of $5.8 million, which consisted of $5.7 million of interest on our securities, loans and equipment leases and notes and $9,000 of interest earned on escrow and sweep accounts. At December 31, 2008, we had interest receivable of $8.4 million, which consisted of $8.4 million of interest on our securities, loans and equipment leases and notes and $49,000 of interest earned on escrow and sweep accounts. The decrease in interest receivable resulted primarily from a $2.3 million decrease in interest on our Apidos portfolio as a result of the decrease in LIBOR, a reference index for the rates payable on these assets, $317,000 decrease in interest on our commercial real estate portfolio and $41,000 decrease in escrow and sweep interest.

Other Assets. Other assets at December 31, 2009 of $5.1 million consisted primarily of $1.6 million of loan origination costs associated with our commercial real estate loan portfolio and trust preferred securities issuances, $1.1 million of principal paydown receivables on our bank loan and commercial real estate loan portfolios, $196,000 of prepaid directors' and officers' liability insurance, $273,000 of prepaid expenses, $1.7 million of deferred tax assets, $19,000 of lease payment receivable and $212,000 of other receivables. Other assets at December 31, 2008 of $5.0 million consisted primarily of $2.7 million of loan origination costs associated with our trust preferred securities issuances, commercial real estate loan portfolio and secured term facility, $125,000 of prepaid directors' and officers' liability insurance, $764,000 of prepaid expenses, $424,000 of lease payment receivables, $950,000 of principal paydown receivables on our bank loan portfolio and $60,000 of other receivables. The increase of $89,000 in other assets was primarily due to an increase in deferred tax assets of $1.7 million due to loss on our leasing portfolio, an increase of $152,000 of other receivables, $134,000 of principal paydown and $71,000 of prepaid directors' and officers' liability insurance. This increase is partially offset by a decrease of $1.1 million in loan origination cost, $492,000 of prepaid assets and $405,000 of lease payment receivables due to the sale of a majority of our leasing portfolio on June 30, 2009.

Hedging Instruments. Our hedges at December 31, 2009 and 2008 were fixed-for-floating interest rate swap agreements whereby we swapped the floating rate of interest on the liabilities we hedged for a fixed rate of interest. With interest rates at historically low levels and the pending maturity of several agreements, we expect that the fair value of our hedges will modestly improve in 2010. We intend to continue to seek such hedges for our floating rate debt in the future. Our hedges at December 31, 2009 were as follows (in thousands):

	Benchmark rate	Notional value	Strike rate	Effective date	Maturity date	Fair value
Interest rate swap	1 month LIBOR	$ 15,235	5.34%	06/08/07	02/25/10	$ (119)
Interest rate swap	1 month LIBOR	7,000	5.34%	06/08/07	02/25/10	(55)
Interest rate swap	1 month LIBOR	28,000	5.10%	05/24/07	06/05/10	(579)
Interest rate swap	1 month LIBOR	12,965	4.63%	12/04/06	07/01/11	(721)
		12,150	5.44%	06/08/07	03/25/12	(1,082)

Interest rate swap	1 month LIBOR							
Interest rate swap	1 month LIBOR		12,750	5.27%	07/25/07	08/06/12		(1,186)
Interest rate swap	1 month LIBOR		34,530	4.13%	01/10/08	05/25/16		(1,266)
Interest rate swap	1 month LIBOR		1,681	5.72%	07/09/07	10/01/16		(141)
Interest rate swap	1 month LIBOR		1,880	5.68%	07/13/07	03/12/17		(274)
Interest rate swap	1 month LIBOR		82,117	5.58%	06/08/07	04/25/17		(6,677)
Interest rate swap	1 month LIBOR		1,726	5.65%	06/28/07	07/15/17		(135)
Interest rate swap	1 month LIBOR		3,850	5.65%	07/19/07	07/15/17		(301)
Interest rate swap	1 month LIBOR		4,023	5.41%	08/07/07	07/25/17		(276)
Total		$	217,907	5.18%			$	(12,812)

In addition, we had one interest rate cap agreement with a fair value of $45,000 and notional amount of $14.8 million outstanding as of December 31, 2009 which reduced our exposure to variability in future cash flows attributable to LIBOR. The interest rate cap is a non-designated cash flow hedge and, as a result, the change in fair value is recorded through interest expense on our consolidated statements of operations. The interest rate cap had an effective date of January 8, 2009, has a maturity date of August 5, 2011 and has a cap rate of 2.00%. We did not have any interest rate caps as of December 31, 2008.

As of December 31, 2008, we had entered into hedges with a notional amount of $325.0 million and maturities ranging from May 2009 to December 2017. At December 31, 2008, the fair value on our interest rate swap agreements was ($31.6) million.

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Repurchase Agreements. Historically, we have used repurchase agreements to finance our commercial real estate loans and CMBS-private placement portfolio. We discuss these repurchase agreements in "–Repurchase Agreements," below. When used, these agreements are secured by the financed assets and bear interest rates that have historically moved in close relationship to LIBOR. At December 31, 2009 and 2008, we had established nine borrowing arrangements with various financial institutions and for the years ended December 31, 2009 and 2008, had utilized two of these arrangements, principally our arrangement with Natixis; however, at December 31, 2009 we had repaid all outstanding borrowings on these facilities. Because any repurchase transaction must be approved by the lender, and as a result of current market conditions, we do not anticipate using these facilities for the foreseeable future although, the facilities remain available for use if market conditions improve.

Collateralized Debt Obligations. As of December 31, 2009, we had executed and retained equity in five CDO transactions as follows:

- In June 2007, we closed RREF CDO 2007-1, a $500.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2007-1 collateralized $390.0 million of senior notes issued by the CDO vehicle, of which RCC Real Estate, Inc., or RCC Real Estate, a subsidiary of ours, purchased 100% of the class H senior notes, class K senior notes, class L senior notes and class M senior notes for $68.0 million at closing, $5.0 million of the Class J senior notes purchased in February 2008 an additional $2.5 million of the Class J senior notes in November 2009, and $11.9 million of the Class E senior notes, $11.9 million of the Class F senior notes and $7.3 million of the Class G senior notes in December 2009. In addition, RREF 2007-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $41.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2009, the notes issued to outside investors, net of repurchased notes had a weighted average borrowing rate of 0.81%.

- In May 2007, we closed Apidos Cinco CDO, a $350.0 million CDO transaction that provided financing for bank loans. The investments held by Apidos Cinco CDO collateralized $322.0 million of senior notes issued by the CDO vehicle, of which RCC Commercial Inc., or RCC Commercial, a subsidiary of ours, purchased a $28.0 million equity interest representing 100% of the outstanding preference shares. At December 31, 2009, the notes issued to outside investors had a weighted average borrowing rate of 0.78%.

- In August 2006, we closed RREF CDO 2006-1, a $345.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2006-1 collateralized $308.7 million of senior notes issued by the CDO vehicle, of which RCC Real Estate purchased 100% of the class J senior notes and class K senior notes for $43.1 million at closing and $7.5 million of the Class F senior notes in June 2009, $3.5 million of the Class E senior note and $4.0 million of the Class F senior notes in September 2009. In addition, RREF 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $36.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2009, the notes issued to outside investors, net of repurchased notes had a weighted average borrowing rate of 1.11%.

- In May 2006, we closed Apidos CDO III, a $285.5 million CDO transaction that provided financing for bank loans. The investments held by Apidos CDO III collateralized $262.5 million of senior notes issued by the CDO vehicle, of which RCC Commercial purchased $23.0 million equity interest representing 100% of the outstanding preference shares. At December 31, 2009, the notes issued to outside investors had a weighted average borrowing rate of 0.71%.

- In August 2005, we closed Apidos CDO I, a $350.0 million CDO transaction that provided financing for bank loans. The investments held by Apidos CDO I collateralize $321.5 million of senior notes issued by the CDO vehicle, of which RCC Commercial purchased $28.5 million equity interest representing 100% of the outstanding preference shares. At December 31, 2009, the notes issued to outside investors had a weighted average borrowing

rate of 0.86%.

Trust Preferred Securities. In May and September 2006, we formed Resource Capital Trust I and RCC Trust II, respectively, for the sole purpose of issuing and selling trust preferred securities. Resource Capital Trust I and RCC Trust II are not consolidated into our consolidated financial statements because we are not deemed to be the primary beneficiary of either trust. We own 100% of the common shares of each trust, each of which issued $25.0 million of preferred shares to unaffiliated investors. Our rights as the holder of the common shares of each trust are subordinate to the rights of the holders of preferred shares only in the event of a default; otherwise, our economic and voting rights are pari passu with the preferred shareholders. We record each of our investments in the trusts' common shares of $774,000 as an investment in unconsolidated trusts and record dividend income upon declaration by each trust.

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In October 2009, we amended our unsecured junior subordinated debentures held by RCT I and RCT II with a total value outstanding of $51.5 million. The amendment provides for an interest rate increase of 2% (from LIBOR plus 3.95% to LIBOR plus 5.95%) on both issuances for a period of two years and a one-time restructuring fee of $250,000 in exchange for the waiver of financial covenants under our guarantee. The covenant waiver expires on January 1, 2012. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2009 were $742,000 and $754,000, respectively. The interest rate adjustment took effect as of October 1, 2009 and expires on September 30, 2011. The rates for RCT I and RCT II at December 31, 2009, were 6.18% and 6.19%, respectively. The rates for RCT I and RCT II at December 31, 2008, were 5.42% and 7.42%, respectively. The additional cost is approximately $280,000 per quarter.

In connection with the issuance and sale of the trust preferred securities, we issued $25.8 million principal amount of junior subordinated debentures to each of Resource Capital Trust I and RCC Trust II. The junior subordinated debentures debt issuance costs are deferred in other assets in the consolidated balance sheets. We record interest expense on the junior subordinated debentures and amortization of debt issuance costs in our consolidated statements of operations. At December 31, 2009, Resource Capital Trust I and RCC Trust II had weighted average borrowing rates of 6.18% and 6.19%, respectively.

Stockholders' Equity

Stockholders' equity at December 31, 2009 was $228.8 million and gave effect to $12.8 million of unrealized losses on cash flow hedges and $47.6 million of unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive loss. Stockholders' equity at December 31, 2008 was $186.3 million and gave effect to $31.6 million of unrealized losses on cash flow hedges and $46.9 million of unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive loss. The increase in stockholders' equity during the year ended December 31, 2009 was principally due to our most recent offering completed in December 2009 and the increase in the market value of our available-for-sale securities and on our cash flow hedges offset by an increase in provision for loan losses and other than temporary impairment on our available-for-sale portfolio.

As a result of "available-for-sale" accounting treatment, unrealized fluctuations in market values of certain assets do not impact our income determined in accordance with accounting principles generally accepted in the United States of America, or 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 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.

The following is a reconciliation of GAAP stockholders' equity to economic book value:

	As of December 31,	
	2009	2008
	(in thousands, except per share data)	
Stockholders' equity - GAAP	$228,830	$186,305
Add: (1)		
Unrealized losses – CMBS portfolio	47,592	41,243
Unrealized losses recognized in excess of value at risk – interest rate swaps	12,812	31,589
Economic book value (2)	$289,234	$259,137
Shares outstanding	36,546	25,345
Economic book value per share	$7.91	$10.22

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(1) RCC adds back unrealized losses on interest rate swaps (cash flow hedges) that are associated with fixed-rate loans that have not been fair-valued through stockholders' equity.

(2) Management views economic book value, a non-GAAP measure, as a useful and appropriate supplement to GAAP stockholders' equity and book value per share. The measure serves as an additional measure of RCC's value because it facilitates evaluation of us without the effects of unrealized losses on investments for which we expect to recover full par value at maturity and on interest rate swaps, which we intend to hold to maturity, in excess of RCC's value at risk. Unrealized losses recognized in RCC's financial statements, prepared in accordance with GAAP that are in excess of RCC's maximum value at risk are added back to stockholders' equity in arriving at economic book value. Economic book value should be reviewed in connection with GAAP stockholders' equity as set forth in RCC's consolidated balance sheets, to help analyze RCC's value to investors. Economic book value is defined in various ways throughout the REIT industry. Investors should consider these differences when comparing RCC's economic book value to that of other REITs.

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REIT Taxable Income

We calculate estimated REIT taxable income, which is a non-GAAP financial measure, according to the requirements of the Internal Revenue Code. The following table reconciles GAAP net income to estimated REIT taxable income for the periods presented (in thousands):

	Years Ended December 31,		
	2009	2008	2007
Net income (loss) – GAAP	$6,339	$(3,074)	$8,890
Taxable REIT subsidiary's loss	3,138	–	–
Adjusted net income (loss)	9,477	(3,074)	8,890
Adjustments:			
Share-based compensation to related parties	543	(1,620)	(500)
Capital carryover (utilization)/losses from the sale of securities	4,818	2,000	(49)
Provision for loan and lease losses unrealized	26,877	14,817	3,153
Asset impairments	13,471	–	26,277
Deferral of extinguishment of debt income	(28,530)	–	–
Net book to tax adjustment for the inclusion of our taxable foreign REIT subsidiaries	(6,277)	27,115	3,432
Subpart F income limitation	9,872	–	–
Net unrealized loss on the deconsolidation of ABS-RMBS portfolio	–	–	1,317
Other net book to tax adjustments	1,212	16	(110)
Estimated REIT taxable income	$31,463	$39,254	$42,410

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

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

Liquidity and Capital Resources

As of December 31, 2009, our principal sources of current liquidity were $43.4 million of net proceeds from our December 2009 offering and $8.9 million of proceeds from sales of common stock through our Dividend Reinvestment Plan, or DRIP, and funds available in existing CDO financings of $80.5 million. As of December 31,

2008, our principal sources of current liquidity were funds available in existing CDO financings of $35.9 million, $4.0 million from secured term financings, and $33.1 million of net proceeds from the transfer of commercial real estate loans, available-for-sale securities and commercial real estate CDO notes from our commercial real estate term facility and short term repurchase agreements into our CDO structures.

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Our on-going liquidity needs consist principally of funds to make investments, make debt repurchases, make distributions to our stockholders and pay our operating expenses, including our management fees. Our ability to meet our on-going liquidity needs will be subject to our ability to generate cash from operations and, with respect to our investments, our ability to maintain and/or obtain additional debt financing and equity capital together with the funds referred to above. Historically, we have financed a substantial portion of our portfolio investments through CDOs that essentially match the maturity and repricing dates of these financing vehicles with the maturities and repricing dates of our investments. We derive substantial operating cash from our equity investments in our CDOs, which if they fail to meet certain tests, will cease. Through December 31, 2009, we have not experienced difficulty in maintaining our existing CDO financing and have passed all of the critical tests required by these financings. However, we cannot assure you that we will continue to meet all such critical tests in the future. If we are unable to renew, replace or expand our sources of existing financing on substantially similar terms, we may be unable to implement our investment strategies successfully and may be required to liquidate portfolio investments. If required, a sale of portfolio investments could be at prices lower than the carrying value of such assets, which would result in losses and reduced income.

At February 28, 2010, after paying the fourth quarter dividend, RCC’s liquidity of $116.7 million consists of two primary sources:

- unrestricted cash and cash equivalents of $29.1 million and restricted cash of $4.0 million in margin call accounts; and

- capital available for reinvestment in its five CDO entities of $83.6 million, of which $1.7 million is designated to finance future funding commitments on CRE loans.

Our leverage ratio may vary as a result of the various funding strategies we use. As of December 31, 2009 and 2008, our leverage ratio was 6.7 times and 9.1 times, respectively. The decrease in leverage ratio was primarily due to the offering proceeds received during our December 2009 offering, the repurchase of our CDO debt, at substantial discounts, and the repayment of our short-term borrowing obligations in full during the year ended December 31, 2009.

Repurchase Agreements

In April 2007, our indirect wholly-owned subsidiary, RCC Real Estate SPE 3, LLC, entered into a master repurchase agreement with Natixis Real Estate Capital, Inc. to be used as a warehouse facility to finance the purchase of commercial real estate loans and commercial mortgage-backed securities. The maximum amount of our borrowing capacity under the repurchase agreement was $150.0 million. The financing provided by the agreement matures April 18, 2010 subject to a one-year extension at the option of RCC Real Estate SPE 3 and subject further to the right of RCC Real Estate SPE 3 to repurchase the assets held in the facility earlier. We paid a facility fee of 0.75% of the maximum facility amount, or $1.2 million, at closing. In addition, once the borrowings exceed a weighted average undrawn balance of $75.0 million for the prior 90 day period, we must pay a non-usage fee on the unused portion equal to the product of (i) 0.15% per annum multiplied by, (ii) the weighted average undrawn balance during the prior 90 day period. The repurchase agreement is with recourse only to the assets financed, subject to standardized exceptions relating to breaches of representations, fraud and similar matters. We have guaranteed RCC Real Estate SPE 3, LLC’s performance of our obligations under the repurchase agreement.

Through a series of amendments entered into in 2008 and 2009 between RCC Real Estate SPE 3 and Natixis, the term repurchase facility and the related Guaranty have been amended as follows:

- The amount of the facility was reduced from $150,000,000 to $100,000,000.
- The amount of the facility will further be reduced to the amount outstanding on October 18, 2009.
- Beginning on November 25, 2008, any further repurchase agreement transactions may be made in Natixis' sole discretion. In addition, premiums over new repurchase prices are required for early repurchase by RCC Real Estate SPE 3 of the Existing Assets that represent collateral under the facility; however, the premiums will reduce the repurchase price of the remaining Existing Assets.
- RCC Real Estate SPE 3's obligation to pay non-usage fees was terminated.
- The weighted average undrawn balance (as defined in the agreement) threshold exempting payment of the non-usage fee was reduced from $75,000,000 to $56,250,000.
- The minimum net worth covenant amount was reduced from $250,000,000 to $125,000,000.

At December 31, 2009, RCC Real Estate SPE 3 had repaid all outstanding borrowings. At December 31, 2008, RCC Real Estate SPE 3 had borrowed $17.1 million. At December 31, 2008, borrowings under the repurchase agreement were secured by commercial real estate loans with an estimated fair value of $35.8 million and had a weighted average interest rate of one-month LIBOR plus 2.30%, which was 3.50% at December 31, 2008.

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We repaid all borrowings to Credit Suisse Securities (USA) LLC as of December 31, 2009. As of December 31, 2008, we had $90,000 outstanding under our agreement with Credit Suisse Securities (USA) LLC to finance our commercial real estate CDO Notes which was secured by commercial real estate CDO Notes with a carrying value of $3.9 million. These are one-month contracts.

Credit Facilities

In March 2006, Resource Capital Funding, LLC, a special purpose entity whose sole member is Resource TRS, Inc., our wholly-owned subsidiary, entered into a Receivables Loan and Security Agreement as the borrower, with LEAF Financial Corporation as the servicer, Black Forest Funding Corporation as the lender, Bayerische Hypo-Und Vereinsbank AG, or HUB, New York Branch, as the agent, U.S. Bank National Association, as the custodian and the agent's bank, and Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the backup servicer. This agreement is a $100.0 million secured term credit facility used to finance the purchase of equipment leases and notes. In connection with the sale on June 30, 2009 of Resource Capital Funding, LLC to Resource America, the borrowings under the secured term facility with HUB were transferred to Resource America and our obligations were terminated. At December 31, 2008, there had been $95.7 million outstanding under the facility. See " – Financial Condition – Credit Facility."

Contractual Obligations and Commitments

The table below summarizes our contractual obligations as of December 31, 2009. The table below excludes contractual commitments related to our derivatives, which we discuss in Item 7A – "Quantitative and Qualitative Disclosures about Market Risk," because those contracts do not have fixed and determinable payments.

Contractual Commitments
(dollars in thousands)
Payments due by period

	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	
CDOs	$ 1,484,952	$ –	$ –	$ –	$ 1,484,952	(1)
Unsecured junior subordinated debentures	51,548	–	–	–	51,548	(2)
Base management fees(3)	4,456	4,456	–	–	–	
Total	$ 1,540,956	$ 4,456	$ –	$ –	$ 1,536,500	

(1) Contractual commitment does not include $2.2 million, $6.4 million, $5.2 million, $7.5 million and $16.4 million of interest expense payable through the non-call dates of July 2010, May 2011, June 2011, August 2011 and June 2012, respectively, on Apidos CDO I, Apidos Cinco CDO, Apidos CDO III, RREF 2006-1 and RREF 2007-1. The non-call date represents the earliest period under which the CDO assets can be sold, resulting in repayment of the CDO notes.

(2) Contractual commitment does not include $3.7 million and $5.0 million of interest expense payable through the non-call dates of June 2011 and October 2011, respectively, on our trust preferred securities.

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

At December 31, 2009, we had 13 interest rate swap contracts with a notional value of $217.9 million. These contracts are fixed-for-floating interest rate swap agreements under which we contracted to pay a fixed rate of interest

for the term of the hedge and will receive a floating rate of interest. See “– Financial Condition – Hedging Instruments.” As of December 31, 2009, the average fixed pay rate of our interest rate hedges was 5.18% and our receive rate was one-month LIBOR, or 0.23%. In addition, we also had an interest rate cap agreement with a notional amount of $14.8 million outstanding which reduced our exposure to variability in future cash flows attributable to LIBOR. The interest rate cap is a non-designated cash flow hedge and, as a result, the change in fair value is recorded through our consolidated statements of operations.

Off-Balance Sheet Arrangements

As of December 31, 2009, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or contractually narrow or limited purposes. Further, as of December 31, 2009, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or letter of intent to provide additional funding to any such entities.

We have certain unfunded commitments related to our commercial real estate loan portfolio that we may be required to fund in the future. Our unfunded commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs subject, in each case, to the borrower meeting specified criteria. Upon completion of the improvements or construction, we would receive additional loan interest income on the advanced amount. As of December 31, 2009, we had four loans with unfunded commitments totaling $5.6 million, of which $1.7 million will be funded by restricted cash in RREF CDO 2007-1.

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Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared by management in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that may affect the value of our assets or liabilities and our financial results. We believe that certain of our policies are critical because they require us to make difficult, subjective and complex judgments about matters that are inherently uncertain. The critical policies summarized below relate to 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.

Valuation of Investment Securities

We 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. Our securities available-for-sale are reported at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of December 31, 2009 and 2008, we had aggregate unrealized losses on our available-for-sale securities of $47.6 million and $46.9 million, respectively, which, if not recovered, may result in the recognition of future losses. Fair value is determined for securities purchased in 2009 based on dealer quotes due to their higher ratings and more active markets and, for securities purchased prior to 2009, based on taking a weighted average of the following three measures:

- an income approach utilizing an appropriate current risk-adjusted yield, time value and projected estimated losses from default assumptions based on historical analysis of underlying loan performance;

- quotes on similar-vintage, higher rated, more actively traded CMBS securities adjusted for the lower subordination level of our securities; and

- dealer quotes on our securities for which there is not an active market.

We are required to determine when an investment is considered impaired (i.e., decline in fair value below its amortized cost), evaluate whether the impairment is other than temporary (i.e., the investment value will not be recovered over its remaining life), and, if the impairment is other than temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value.

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.

Accounting for Derivative Financial Instruments and Hedging Activities

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

As of December 31, 2009, we had engaged in 13 interest rate swaps with a notional value of $217.9 million and a fair value of ($12.8) million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. As of December 31, 2008, we had engaged in 31 interest rate swaps with a notional value of $325.0 million and a fair value of ($31.6) million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. The contracts we have entered into have been designated as cash flow hedges and are evaluated at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. A hedge instrument is highly effective if changes in the fair value of the derivative provide an offset to at least 80% and not more than 125% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged. The futures and interest rate swap contracts are carried on our consolidated balance sheets at fair value. Any ineffectiveness which arises during the hedging relationship must be recognized in interest expense during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gain and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on futures contracts are reclassified into earnings as an adjustment to interest expense during the specified hedge time period. Realized gains and losses on the interest rate hedges are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap. For taxable income purposes, realized gains and losses on futures and interest rate cap and swap contracts are reclassified into earnings over the term of the hedged transactions as designated for tax.

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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. We had one non-designated interest rate cap agreement with a fair value of $45,000 and a notional amount of $14.8 million outstanding at December 31, 2009 which reduced our exposure to variability in future cash flows attributable to LIBOR. We recorded interest expense of $89,000 for the year ended December 31, 2009. We did not have any non-designated cash flow hedges as of December 31, 2008.

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 Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income which is distributed to its stockholders, provided, that at least 90% of REIT taxable income is distributed and certain other requirements are met. If we fail to meet these requirements and do not qualify for certain statutory relief provisions, we would be subject to federal income tax. We have a wholly-owned domestic subsidiary, Resource TRS, that we and Resource TRS have elected to be treated as a taxable REIT subsidiary. For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by us with respect to our interest in Resource TRS, because it is taxed as a regular subchapter C corporation under the Internal Revenue Code. During the years ended December 31, 2009 and 2008, we recorded benefits of $2,000 and $241,000, respectively, for income taxes related to earnings of Resource TRS.

Apidos CDO I, Apidos CDO III, Apidos Cinco CDO and Ischus CDO II, our foreign TRSs, are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands, and are generally exempt from federal and state income tax at the corporate level because their activities in the United States are limited to trading in stock and securities for their own account. Therefore, despite their status as TRSs, they generally will not be subject to corporate tax on their earnings and no provision from income taxes is required; however because they are "controlled foreign corporations," we will generally be required to include their current taxable income in our calculation of REIT taxable income.

Allowance for Loan and Lease Losses

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

We consider an individual loan to be impaired when, based on current information and events, management believes it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, the allowance for loan losses is increased by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based the present value of estimated cash flows; on market price, if available; or the fair value of the collateral less estimated disposition costs. When a loan, or a portion thereof, is considered uncollectible and pursuit of the collection is not warranted, then we will record a charge-off or write-down of the loan against the allowance for credit losses. The balance of impaired loans and leases was $100.1 million and $23.9 million at December 31, 2009 and 2008, respectively. The total balance of impaired loans and leases with a valuation allowance at December 31, 2009 and 2008 was $82.2 million and $23.9 million, respectively. The total balance of impaired loans and leases with a specific valuation allowance was $17.9 million at December 31, 2009. All of the loans and leases deemed impaired at December 31, 2008 have an associated valuation allowance. The specific valuation allowance related to these impaired loans and leases was $31.0 million and $19.6 million at December 31, 2009 and 2008, respectively. The average balance of impaired loans and leases

was $112.6 million and $24.9 million during 2009 and 2008, respectively. We did not recognize any income on impaired loans and leases during 2009 and 2008 once each individual loan or lease became impaired unless cash was received.

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

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The following table shows the changes in the allowance for loan loss (in thousands):

Allowance for loan loss at January 1, 2008	$5,918
Reserve charged to expense	45,259
Loans charged-off	(7,310)
Recoveries	–
Allowance for loan loss at January 1, 2009	43,867
Reserve charged to expense	58,711
Loans charged-off	(55,456)
Recoveries	–
Allowance for loan loss at December 31, 2009	$47,122

The following table shows the changes in the allowance for lease loss (in thousands):

Allowance for lease loss at January 1, 2008	$–
Reserve charged to expense	901
Lease charged-off	(451)
Recoveries	–
Allowance for lease loss at December 31, 2008	450
Reserve charged to expense	2,672
Lease charged-off	(1,994)
Recoveries	12
Allowance for lease loss at December 31, 2009	$1,140

Variable Interest Entities

In December 2003, the Financial Accounting Standards Board, or FASB, issued guidance which 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 consider 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. We perform analyses to determine whether we are the primary beneficiary. As of December 31, 2009, we determined that RREF CDO 2007-1, RREF CDO 2006-1, Apidos CDO I, Apidos CDO III and Apidos Cinco CDO were VIEs and that we were the primary beneficiary of RREF CDO 2007-1, RREF CDO 2006-1, Apidos CDO I, Apidos CDO III and Apidos Cinco CDO.

Recent Accounting Pronouncements

In January 2010, the FASB issued new guidance for fair value measurements and disclosures. The guidance requires new disclosures for transferring in and out of Level 1 and Level 2 amounts and clarifies existing disclosures regarding levels of disaggregation and inputs surrounding valuation techniques. This guidance will be effective for interim and annual periods beginning after December 15, 2009. We do not expect adoption will have a material impact on its consolidated financial statements. In addition, this guidance requires new disclosure surrounding activity in Level 3 fair value measurements, to present separately information about purchases, sales, issuances and settlements. This guidance will be effective for interim and annual periods beginning after December 15, 2010. Adoption will require additional disclosure to break out such categories in the notes to our consolidated financial statements.

In December 2009, the FASB issued new guidance for improving financial reporting for enterprises involved with variable interest entities, or VIEs, regarding power to direct the activities of a VIE as well as obligations to absorb the losses. This guidance is effective for interim and annual periods beginning after November 15, 2009. We have evaluated the potential impact of adopting this statement and do not believe it will have an impact on our consolidated financial statements.

In August 2009, the FASB issued new guidance for evaluating the fair value of liabilities. The guidance clarifies techniques for valuing liabilities in circumstances where a quoted price or a quoted price for an identical liability is not available. The provisions of this guidance were effective in the third quarter of 2009 and did not have a material impact on our consolidated financial statements.

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In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification, the single source of authoritative GAAP, other than guidance put forth by the Securities and Exchange Commission ("SEC"). All other accounting literature not included in the codification will be considered non-authoritative. We adopted this guidance in the third quarter of 2009. Adoption impacted the disclosures for references to accounting guidance by putting such disclosures into plain English.

In June 2009, the FASB issued new guidance for consolidation of variable interest entities which changes the consolidation guidance applicable to a VIE and amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE and therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. This standard also requires continuous reassessment of whether an enterprise is the primary beneficiary of a VIE as well as enhanced disclosures about an enterprise's involvement with a VIE. This statement is effective for interim and annual periods beginning after November 15, 2009. We have evaluated the potential impact of adopting this statement and concluded that we will continue to consolidate our VIEs mentioned above under "Variable Interest Entities" as well as identified in Note 1 to the consolidated financial statements. Upon adoption, we will do a continuous reassessment of our conclusion as stipulated in this statement.

In June 2009, the FASB issued guidance for accounting for transfers of financial assets. The guidance eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires greater transparency of related disclosures. This statement is effective for fiscal years beginning after November 15, 2009. We have evaluated the potential impact of adopting this statement and do not expect adoption will have an impact on our consolidated financial statements.

In May 2009, the FASB issued guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the issuance of the financial statements. We adopted this guidance in the second quarter of 2009. Adoption did not have a material impact on our consolidated financial statements. We provided disclosures required by this guidance.

On April 9, 2009, the FASB issued guidance intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. It provides guidelines for making fair value measurements more consistent with the fair value measurement principles when the volume and level of activity for the asset or liability have decreased significantly. It also enhances consistency in financial reporting by increasing the frequency of fair value disclosures. Finally, it provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. Provisions for this guidance were effective for interim periods ending after June 15, 2009, with early adoption permitted in the first quarter of 2009. Adoption did not have a significant impact on our consolidated financial statements; however, we provided the required additional disclosures in Note 16 to the consolidated financial statements.

In March 2008, the FASB issued guidance that requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008 and was applicable to us in the first quarter of fiscal 2009. Adoption did not have a significant impact on our financial statements; however, we provided the required additional disclosures in Note 17 to the consolidated financial statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2009 and 2008, the primary component of our market risk was interest rate risk, as described below. While we do not seek to avoid risk completely, we do seek to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient compensation to justify assuming that risk and to maintain capital levels consistent with the risk we undertake or to which we are exposed.

Effect on Fair Value

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

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

The following sensitivity analysis tables show, at December 31, 2009, the estimated impact on the fair value of our interest rate-sensitive investments and liabilities of changes in interest rates, assuming rates instantaneously fall 100 basis points and rise 100 basis points (dollars in thousands):

	December 31, 2009		
	Interest rates fall 100 basis points	Unchanged	Interest rates rise 100 basis points
CMBS – private placement (1)			
Fair value	$ 34,815	$ 33,333	$ 31,914
Change in fair value	$ 1,482	$ –	$ (1,419)
Change as a percent of fair value	4.45 %	– %	4.26 %
Hedging instruments			
Fair value	$ (27,870)	$ (12,812)	$ (10,559)
Change in fair value	$ (15,058)	$ –	$ 2,253
Change as a percent of fair value	117.53 %	– %	17.59 %

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

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

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

Risk Management

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

- monitoring and adjusting, if necessary, the reset index and interest rate related to our mortgage-backed securities and our borrowings;

- attempting to structure our borrowing agreements for our CMBS to have a range of different maturities, terms, amortizations and interest rate adjustment periods; and

- using derivatives, financial futures, swaps, options, caps, floors and forward sales, to adjust the interest rate sensitivity of our fixed-rate commercial real estate mortgages and CMBS and our borrowing.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Resource Capital Corp.

We have audited the accompanying consolidated balance sheets of Resource Capital Corp. (a Maryland corporation) and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits of the basic financial statements included the financial statement schedules listed in the index appearing under item 15 (a) 2. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resource Capital Corp. and its subsidiaries as of December 31, 2009 and 2008, and the results of their consolidated operations and their consolidated cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Resource Capital Corp. and its subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2010 expressed an unqualified opinion on internal control over financial reporting.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
March 15, 2010

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

	December 31,	
	2009	2008
ASSETS		
Cash and cash equivalents	$51,991	$14,583
Restricted cash	85,125	60,394
Investment securities available-for-sale, pledged as collateral, at fair value	39,304	22,466
Investment securities available-for-sale, at fair value	5,238	6,794
Investment securities held-to-maturity, pledged as collateral	31,401	28,157
Loans, pledged as collateral and net of allowances of $47.1 million and $43.9 million	1,558,687	1,684,622
Loans held for sale	8,050	–
Direct financing leases and notes, net of allowances of $1.1 million and $450,000 and net of unearned income	927	104,015
Investments in unconsolidated entities	3,605	1,548
Interest receivable	5,754	8,440
Other assets	5,102	5,012
Total assets	$1,795,184	$1,936,031
LIABILITIES		
Borrowings	$1,536,500	$1,699,763
Distribution payable	9,170	9,942
Accrued interest expense	1,516	4,712
Derivatives, at fair value	12,767	31,589
Accounts payable and other liabilities	6,401	3,720
Total liabilities	1,566,354	1,749,726
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 100,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, par value $0.001: 500,000,000 shares authorized; 36,545,737 and 25,344,867 shares issued and outstanding (including 437,319 and 452,310 unvested restricted shares)	36	26
Additional paid-in capital	405,517	356,103
Accumulated other comprehensive loss	(62,154)	(80,707)
Distributions in excess of earnings	(114,569)	(89,117)
Total stockholders' equity	228,830	186,305
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,795,184	$1,936,031

The accompanying notes are an integral part of these consolidated financial statements

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

	December 31,		
	2009	2008	2007
REVENUES			
Net interest income:			
Loans	$84,563	$117,108	$136,873
Securities	7,225	6,378	30,014
Leases	4,336	8,180	7,553
Interest income – other	1,469	2,675	2,555
Total interest income	97,593	134,341	176,995
Interest expense	45,427	79,619	121,564
Net interest income	52,166	54,722	55,431
OPERATING EXPENSES			
Management fees – related party	8,363	6,301	6,554
Equity compensation – related party	1,240	540	1,565
Professional services	3,866	3,349	2,911
Insurance expense	828	641	466
General and administrative	1,764	1,848	1,581
Income tax (benefit) expense	(2)	(241)	338
Total expenses	16,059	12,438	13,415
NET OPERATING INCOME	36,107	42,284	42,016
OTHER INCOME (EXPENSES)			
Impairment losses on investment securities	(27,490)	(26,611)	(48,853)
Recognized in other comprehensive loss	(14,019)	(26,611)	(22,576)
Net impairment losses recognized in earnings	(13,471)	–	(26,277)
Net realized losses on loans and investments	1,890	(1,637)	(15,098)
Gain on deconsolidation of VIE	–	–	14,259
Provision for loan and lease losses	(61,383)	(46,160)	(6,211)
Gain on the extinguishment of debt	44,546	1,750	–
Gain on the settlement of loan	–	574	–
Other (expense) income	(1,350)	115	201
Total expenses	(29,768)	(45,358)	(33,126)
NET INCOME (LOSS)	$6,339	$(3,074)	$8,890
NET INCOME (LOSS) PER SHARE – BASIC	$0.25	$(0.12)	$0.36
NET INCOME (LOSS) PER SHARE – DILUTED	$0.25	$(0.12)	$0.36
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC	25,205,403	24,757,386	24,610,468

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED	25,355,821	24,757,386	24,860,184
DIVIDENDS DECLARED PER SHARE	$1.15	$1.60	$1.62

The accompanying notes are an integral part of these consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2009, 2008 and 2007
(in thousands, except share and per share data)

	Shares	Amount	Additional Paid-In Capital	Deferred Equity Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Treasury Shares	Total Stockholders' Equity	Comprehens (Loss)/Incor
Balance, December 31, 2006	23,821,434	$24	$341,400	$(1,072)	$(9,279)	$–	$(13,522)	–	$317,551	
Net proceeds from common stock offerings	650,000	1	10,134	–	–	–	–	–	10,135	–
Offering costs	–	–	(406)	–	–	–	–	–	(406)	–
Reclassification of deferred equity compensation	–	–	(1,072)	1,072	–	–	–	–	–	–
Stock based compensation	526,448	–	723	–	–	–	–	–	723	–
Stock based compensation, fair value adjustment	–	–	–	–	–	–	–	–	–	–
Exercise of common stock warrants	375,547	–	5,632	–	–	–	–	–	5,632	–
Amortization of stock based compensation	–	–	1,565	–	–	–	–	–	1,565	–
Repurchase and retirement of treasury shares	(263,000)	–	–	–	–	–	–	(2,771)	(2,771)	
Forfeiture of unvested stock	(6,897)	–	–	–	–	–	–	–	–	
Net income	–	–	–	–	–	8,890	–	–	8,890	$8,890
Available-for-sale securities, fair value adjustment	–	–	–	–	(16,544)	–	–	–	(16,544)	(16,544
Designated derivatives, fair value adjustment	–	–	–	–	(12,500)	–	–	–	(12,500)	(12,500
Distributions on common stock	–	–	–	–	–	(8,890)	(31,779)	–	(40,669)	
	–	–	–	–	–	–	–	–	–	$(20,154

Comprehensive loss										
Balance, December 31, 2007	25,103,532	25	357,976	–	(38,323)	––	(45,301)	(2,771)	271,606	
Net proceeds from dividend reinvestment and stock purchase plan	10,831	–	40	–	–	–	–	–	40	–
Offering costs	–	–	(22)	–	–	–	–	–	(22)	–
Retirement of treasury shares	–	–	(2,771)	–	–	–	–	2,771	–	–
Stock based compensation	234,871	1	340	–	–	–	–	–	341	–
Amortization of stock based compensation	–	–	540	–	–	–	–	–	540	–
Forfeiture of unvested stock	(4,367)	–	–	–	–	–	–	–	–	
Net income	–	–	–	–	–	(3,074)	–	–	(3,074)	(3,074
Available-for-sale securities, fair value adjustment	–	–	–	–	(24,288)	–	–	–	(24,288)	(24,288
Designated derivatives, fair value adjustment	–	–	–	–	(18,096)	–	–	–	(18,096)	(18,096
Distributions on common stock	–	–	–	–	–	3,074	(43,816)	–	(40,742)	
Comprehensive loss	–	–	–	–	–	–	–	–	–	$(45,458
Balance, December 31, 2008	25,344,867	26	356,103	–	(80,707)	––	(89,117)	–	186,305	
Proceeds from common stock offering	10,294,455	10	46,316	–	–	–	–	–	46,326	–
Proceeds from dividend reinvestment and stock purchase plan	1,895,043	1	8,994	–	–	–	–	–	8,995	–
Offering costs	–	–	(2,964)	–	–	–	–	–	(2,964)	–
Repurchase and retirement of treasury shares	(1,400,000)	(1)	(5,039)	–	–	–	–		(5,040)	–
	419,563		867	–	–	–	–	–	867	–

Stock based compensation										
Amortization of stock based compensation	–	–	1,240	–	–	–	–	–	1,240	–
Forfeiture of unvested stock	(8,191)	–	–	–	–	–	–	–	–	–
Net income	–	–	–	–	–	6,339	–	–	6,339	6,339
Securities available-for-sale, fair value adjustment, net	–	–	–	–	(729)	–	–	–	(729)	(729
Designated derivatives, fair value adjustment	–	–	–	–	19,282	–	–	–	19,282	19,282
Distributions on common stock	–	–	–	–	–	(6,339)	(25,452)	–	(31,791)	
Comprehensive loss	–	–	–	–	–	–	–	–	–	$24,892
Balance, December 31, 2009	36,545,737	$36	$405,517	$–	$(62,154)	$–	$(114,569)	$–	$228,830	

The accompanying notes are an integral part of these consolidated financial statements

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

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$6,339	$(3,074)	$8,890
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	61,383	46,160	6,211
Depreciation and amortization of term facilities	1,355	1,019	793
Accretion of net discounts on investments	(8,719)	(1,478)	(1,034)
Amortization of discount on notes of CDOs	1,032	173	83
Amortization of debt issuance costs on notes of CDOs	4,058	3,129	2,681
Amortization of stock-based compensation	1,240	540	1,565
Amortization of terminated derivative instruments	499	205	(174)
Non-cash incentive compensation to the Manager	1,143	440	774
Unrealized losses on non-designated derivative instruments	95	–	–
Net realized (gains) losses on investments	(1,890)	1,637	15,098
Net impairment losses recognized in earnings	13,471	–	26,277
Gain on the extinguishment of debt	(44,546)	(1,750)	–
Gain on deconsolidation of VIEs	–	–	(14,259)
Gain on the settlement of loan	–	(574)	–
Changes in operating assets and liabilities:			
Decrease (increase) in restricted cash	10,596	4,113	(16,775)
Decrease (increase) in interest receivable, net of purchased interest	2,697	3,526	(4,881)
Decrease (increase) in accounts receivable	424	574	(511)
Increase (decrease) in management and incentive fee payable	474	221	(647)
(Decrease) increase in security deposits	(791)	353	134
Increase (decrease) in accounts payable and accrued liabilities	2,714	(962)	55
(Decrease) increase in accrued interest expense	(3,168)	(2,729)	993
Increase in other assets	(1,784)	(573)	(1,895)
Net cash provided by operating activities	46,622	50,950	23,378
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in restricted cash	(35,327)	54,976	(71,930)
Purchase of securities available-for-sale	(28,958)	–	(87,378)
Principal payments received on securities available-for-sale	21	2,359	11,333
Proceeds from sale of securities available-for-sale	1,909	8,000	29,867
Investment in unconsolidated entity	(2,066)	–	–
Distribution from unconsolidated entities	–	257	517
Purchase of loans	(243,786)	(186,759)	(1,296,938)
Principal payments received on loans	177,589	161,653	572,046
Proceeds from sale of loans	130,078	34,853	183,455
Purchase of direct financing leases and notes	–	(42,490)	(38,735)
Principal payments received on direct financing leases and notes	8,655	27,823	26,366

Proceeds from sale of direct financing leases and notes	2,125	5,034	6,378
Proceeds from sale of interest in subsidiary	7,545	–	–
Net cash provided by (used in) investing activities	17,785	65,706	(665,019)

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

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuances of common stock (net of offering costs of $2,964, $0 and $406)	43,362	–	15,362
Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of $0, $22 and $0)	8,995	18	–
Repurchase of common stock	(5,040)	–	(2,771)
Proceeds from borrowings:			
Repurchase agreements	18	239	464,137
Collateralized debt obligations	–	35,912	674,653
Unsecured revolving credit facility	–	–	10,000
Secured term facility	–	26,342	30,077
Payments on borrowings:			
Repurchase agreements	(17,108)	(99,319)	(468,102)
Collateralized debt obligations	–	–	(993)
Unsecured revolving credit facility	–	–	(10,000)
Secured term facility	(13,395)	(22,367)	(23,011)
Repurchase of debt	(10,974)	(3,250)	–
Settlement of derivative instruments	–	(4,178)	2,581
Payment of debt issuance costs	(293)	(333)	(11,651)
Distributions paid on common stock	(32,564)	(41,166)	(37,966)
Net cash (used in) provided by financing activities	(26,999)	(108,102)	642,316
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,408	8,554	675
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,583	6,029	5,354
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$51,991	$14,583	$6,029
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Distributions on common stock declared but not paid	$9,170	$9,942	$10,366
Issuance of restricted stock	$242	$1,435	$6,650
Purchase of loans on warehouse line	$–	$–	$(311,069)
Proceeds from warehouse line	$–	$–	$311,069
Transfer of direct financing leases and notes	$89,763	$–	$–
Transfer of secured term facility	$(82,319)	$–	$–
Increase in bank loan investments	$1,148	$–	$–
Decrease in bank loan investments	$(1,148)	$–	$–
SUPPLEMENTAL DISCLOSURE:			
Interest expense paid in cash	$48,138	$94,879	$136,683
Income taxes paid in cash	$–	$627	$90

The accompanying notes are an integral part of these consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 – ORGANIZATION AND BASIS OF QUARTERLY PRESENTATION

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

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

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

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

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

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

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

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

- Resource TRS, Inc. ("Resource TRS"), the Company's directly-owned TRS, holds all the Company's direct financing leases and notes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

When the Company obtains an explicit or implicit interest in an entity, the Company evaluates the entity to determine if the entity is a VIE, and, if so, whether or not the Company is deemed to be the primary beneficiary of the VIE. Generally, the Company consolidates VIEs for which the Company is deemed to be the primary beneficiary or for non-VIEs which the Company controls. The primary beneficiary of a VIE is the variable interest holder that absorbs the majority of the variability in the expected losses or the residual returns of the VIE. When determining the primary beneficiary of a VIE, the Company considers its aggregate explicit and implicit variable interests as a single variable interest. If the Company's single variable interest absorbs the majority of the variability in the expected losses or the residual returns of the VIE, the Company is considered the primary beneficiary of the VIE. The Company reconsiders its determination of whether an entity is a VIE and whether the Company is the primary beneficiary of such VIE if certain events occur.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

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

Principles of Consolidation – (continued)

The Company has a 100% interest valued at $1.5 million in the common shares (three percent of the total equity) in two trusts, Resource Capital Trust I ("RCT I") and RCC Trust II ("RCT II"). Accordingly, the Company does not have the right to the majority of RCTs' expected residual returns. Therefore, the Company is not deemed to be the primary beneficiary of either trust and they are not consolidated into the Company's consolidated financial statements. The Company records its investments in RCT I and RCT II's common shares of $774,000 each as investments in unconsolidated trusts using the cost method and records dividend income upon declaration by RCT I and RCT II. For the years ended December 31, 2009 and 2008, the Company recognized $3.0 million and $4.0 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $189,000 and $134,000, respectively, of amortization of deferred debt issuance costs.

All inter-company transactions and balances have been eliminated.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At December 31, 2009 and 2008, this includes $0 and $8.0 million, respectively, in overnight deposits in the form of reverse repurchase agreements that are held at financial institutions, $5.7 million and $1.6 million, respectively, held in a prime brokerage account, $43.4 million and $5.0 million, respectively, held in a money market account and $2.9 million and $0 held in checking accounts, respectively.

Investment Securities Available-for-Sale

The Company classifies its investment portfolio as either trading investments, available-for-sale or held-to-maturity. Although the Company generally plans to hold most of its investments to maturity, it may, from time to time, sell any of its investments due to changes in market conditions or in accordance with its investment strategy. The Company's available-for-sale securities are reported at fair value which for the Company's securities purchased in 2009 is based on dealer quotes due to their higher ratings and more active markets and for the Company's securities purchased prior to 2009 is based on taking a weighted average of the following three measures:

- an income approach utilizing an appropriate current risk-adjusted yield, time value and projected estimated losses from default assumptions based on analysis of underlying loan performance;

- quotes on similar-vintage, higher rate, more actively traded commercial mortgage-backed securities ("CMBS") adjusted as appropriate for the lower subordination level of the Company's securities; and

- dealer quotes on the Company's securities for which there is not an active market.

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

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

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

Investment Securities Available-for-Sale – (continued)

Investment securities transactions are recorded on the trade date. Purchases of newly issued securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. Realized gains and losses on investment securities are determined on the specific identification method.

Investment Interest Income Recognition

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

Loans

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

Loan Interest Income Recognition

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

Allowance for Loan and Lease Losses

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

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

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

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

Allowance for Loan and Lease Losses – (continued)

The balance of impaired loans and leases was $100.1 million and $23.9 million at December 31, 2009 and 2008, respectively. The total balance of impaired loans and leases with a valuation allowance at December 31, 2009 and 2008 was $82.2 million and $23.9 million, respectively. The total balance of impaired loans and leases without a specific valuation allowance was $17.9 million at December 31, 2009. All of the loans and leases deemed impaired at December 31, 2008 have an associated valuation allowance. The specific valuation allowance related to these impaired loans and leases was $31.0 million and $19.6 million at December 31, 2009 and 2008, respectively. The average balance of impaired loans and leases was $112.6 million and $24.9 million during 2009 and 2008, respectively. The Company did not recognize any income on impaired loans and leases during 2009 and 2008 once each individual loan or lease became impaired unless cash was received.

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

Comprehensive Gain/(Loss)

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

Income Taxes

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

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

Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, the Company’s foreign TRSs, are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands, and are generally exempt from federal and state income tax at the corporate level because their activities in the United States are limited to trading in

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

Stock Based Compensation

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

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

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

Net Income Per Share

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

Derivative Instruments

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

Recent Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued new guidance for fair value measurements and disclosures. The guidance requires new disclosures for transferring in and out of Level 1 and Level 2 amounts and clarifies existing disclosures regarding levels of disaggregation and inputs surrounding valuation techniques. This guidance will be effective for interim and annual periods beginning after December 15, 2009. The Company does not expect adoption will have a material impact on its consolidated financial statements. In addition this guidance requires new disclosure surrounding activity in Level 3 fair value measurements, to present separately information about purchases, sales, issuances and settlements. This guidance will be effective for interim and annual periods beginning after December 15, 2010. Adoption will require additional disclosure to delineate such categories in the notes to the Company's consolidated financial statements.

In December 2009, the FASB issued new guidance for improving financial reporting for enterprises involved with VIEs regarding power to direct the activities of a VIE as well as obligations to absorb the losses. This guidance is effective for interim and annual periods beginning after November 15, 2009. The Company has evaluated the potential impact of adopting this statement and does not believe it will have an impact on its consolidated financial statements.

In August 2009, the FASB issued new guidance for evaluating the fair value of liabilities. The guidance clarifies techniques for valuing liabilities in circumstances where a quoted price or a quoted price for an identical liability is not available. The provisions of this guidance were effective in the third quarter of 2009 and did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification, the single source of authoritative GAAP, other than guidance put forth by the Securities and Exchange Commission ("SEC"). All

other accounting literature not included in the codification will be considered non-authoritative. The Company adopted this guidance in the third quarter of 2009. Adoption impacted the disclosures for references to accounting guidance by putting such disclosures into plain English.

In June 2009, the FASB issued new guidance for consolidation of VIEs which changes the consolidation guidance applicable to a VIE and amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE and therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. This standard also requires continuous reassessment of whether an enterprise is the primary beneficiary of a VIE as well as enhanced disclosures about an enterprise's involvement with a VIE. This guidance is effective for interim and annual periods beginning after November 15, 2009. The Company has evaluated the potential impact of adopting this statement and concluded that it will continue to consolidate its VIEs that it identified in Note 1 to the consolidated financial statements. The Company will do a continuous reassessment of its conclusion as stipulated in this statement.

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

Recent Accounting Standards – (continued)

In June 2009, the FASB issued guidance for accounting for transfers of financial assets. The guidance eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires greater transparency of related disclosures. This statement is effective for fiscal years beginning after November 15, 2009. The Company has evaluated the potential impact of adopting this statement and does not expect adoption will have an impact on its consolidated financial statements.

In May 2009, the FASB issued guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the issuance of the financial statements. The Company adopted this guidance in the second quarter of 2009. Adoption did not have a material impact on the Company's consolidated financial statements. The Company provided disclosures required by this guidance.

On April 9, 2009, the FASB issued guidance intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. It provides guidelines for making fair value measurements more consistent with the fair value measurement principles when the volume and level of activity for the asset or liability have decreased significantly. It also enhances consistency in financial reporting by increasing the frequency of fair value disclosures. Finally, it provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. Provisions for this guidance are effective for interim periods ending after June 15, 2009, with early adoption permitted in the first quarter of 2009. Although adoption did not have a significant impact on the Company's consolidated financial statements; however, the Company provided the required additional disclosures in Note 16 to the consolidated financial statements.

In March 2008, the FASB issued guidance that requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008 and was applicable to the Company in the first quarter of fiscal 2009. Although the adoption did not have a significant impact on the Company's consolidated financial statements; however, the Company provided the required additional disclosures in Note 17 to the consolidated financial statements.

Reclassifications

Certain reclassifications, as a result of adoption of new accounting standards, have been made to the 2008 and 2007 consolidated financial statements to conform to the 2009 presentation.

NOTE 3 – RESTRICTED CASH

Restricted cash as of December 31, 2009 consists of $80.5 million held in five consolidated CDO trusts and $4.6 million in cash collateralizing outstanding margin calls on the cash flow hedges.

NOTE 4 – DECONSOLIDATION OF VARIABLE INTEREST ENTITY

The Company consolidates VIEs if the Company determines it is the primary beneficiary. During the year ended December 31, 2007, the Company sold a portion of its preferred shares in Ischus CDO II Ltd. ("Ischus CDO II') to an independent third party. The sale was deemed to be a reconsideration event and the Company determined it was no longer the primary beneficiary. Therefore, as of the date of the sale, the Company deconsolidated Ischus CDO II and wrote down its investment in this CDO by $15.6 million which was recorded in net realized (losses) gains on sales of investments on the Company's consolidated statements of operations. Additionally, the losses the Company recorded on the sales of the net assets were in excess of its cost basis and, as a result, the Company recorded a gain on the deconsolidation of Ischus CDO II of $14.3 million.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

NOTE 4 – DECONSOLIDATION OF VARIABLE INTEREST ENTITIES – (continued)

The value of the preferred shares at deconsolidation was $722,000. The Company recognized income on these preferred shares using the cost recovery method. At December 31, 2007, the remaining value of the Company's preferred shares in Ischus CDO II was $257,000 after collecting $465,000 of cash distributions from the date of deconsolidation through December 31, 2007 and applying it as a reduction of the Company's investment. No income was recognized on this investment from the period of deconsolidation through December 31, 2007. During the year ended December 31, 2008 $1.3 million of cash was collected from this investment and $997,000 of income was recognized (after reducing the Company's investment from $257,000 to zero) which is included in Interest Income – other on the Company's consolidated statement of operations.

The following table summarizes the Company's calculation of its loss on its investment in Ischus CDO II at December 31, 2007 (in thousands):

Write-down of Investment in Ischus CDO II:		
Original investment	$	27,000
Cumulative cash distributions		(10,697)
Net basis		16,303
Investment valuation at time of sale		(722)
Realized loss on investment	$	15,581

The following tables summarize the balance sheet and statement of operations of Ischus CDO II as of the date of deconsolidation during 2007 and its income statements for historical periods. The statement of operations for Ischus CDO II is included in the Company's consolidated statement of income during 2007 whereas the assets of the consolidated balance sheet below have been removed from the Company's consolidated balance sheet as of December 31, 2007. The following table also describes the non-cash changes in the Company's assets and liabilities during 2007 caused by the deconsolidation of Ischus CDO II (in thousands):

		November 13, 2007
ASSETS:		
Available-for-sale securities, pledged	$	214,769
Restricted cash		1,954
Interest receivable		1,747
Other assets		191
Total assets	$	218,661
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Borrowings	$	370,688
Accrued interest and other payables		414
Other comprehensive loss		(154,486)
RCC investment at date of deconsolidation		16,304
		232,920
Gain on deconsolidation of VIE		(14,259)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	218,661

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

NOTE 4 – DECONSOLIDATION OF VARIABLE INTEREST ENTITIES – (continued)

	Period from January 1, 2007 through November 13, 2007	Year ended December 31, 2006	Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
REVENUES:			
Securities	$24,463	$27,189	$ 9,252
Interest income – other	134	86	100
Total interest income	24,597	27,275	9,352
Interest expense	19,688	21,666	7,161
Net interest income	4,909	5,609	2,191
OPERATING EXPENSES:			
Professional services	138	228	97
General and administrative	83	99	45
Total operating expenses	221	327	142
NET OPERATING INCOME	4,688	5,282	2,049
OTHER (EXPENSES) REVENUES:			
Net realized gain (loss) on investments	47	(47)	–
Asset impairments	(26,277)	–	–
Total expenses	(26,230)	(47)	–
NET (LOSS) INCOME	$(21,542)	$5,235	$ 2,049

NOTE 5 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value (1)
December 31, 2009:				
Commercial mortgage-backed private placement	$ 92,110	$ 2,622	$ (50,214)	$ 44,518
Other asset-backed	24	–	–	24
Total	$ 92,134	$ 2,622	$ (50,214)	$ 44,542
December 31, 2008:				
Commercial mortgage-backed private placement	$ 70,458	$ –	$ (41,243)	$ 29,215

Other asset-backed	5,665	–	(5,620)	45
Total	$ 76,123	$ –	$ (46,863)	$ 29,260

(1) As of December 31, 2009 and 2008, $39.3 million and $22.5 million, respectively, of securities were pledged as collateral security under related financings.

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NOTE 5 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (continued)

The following table summarizes the estimated maturities of the Company's mortgage-backed securities and other asset-backed securities according to their estimated weighted average life classifications (in thousands, except percentages):

Weighted Average Life	Fair Value	Amortized Cost	Weighted Average Coupon
December 31, 2009:			
Less than one year	$7,503	$20,043	1.50%
Greater than one year and less than five years	4,346	12,728	2.24%
Greater than five years	32,693	59,363	5.76%
Total	$44,542	$92,134	4.35%
December 31, 2008:			
Less than one year	$5,088	$10,465	3.17%
Greater than one year and less than five years	9,954	21,596	3.75%
Greater than five years	14,218	44,062	5.05%
Total	$29,260	$76,123	4.36%

The contractual maturities of the investment securities available-for-sale range from January 2011 to October 2017.

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2009:						
Commercial mortgage-backed private placement	$ 11,193	$ (1,073)	$ 14,588	$ (49,141)	$ 25,781	$ (50,214)
Total temporarily impaired securities	$ 11,193	$ (1,073)	$ 14,588	$ (49,141)	$ 25,781	$ (50,214)
December 31, 2008:						
Commercial mortgage-backed private placement	$ –	$ –	$ 29,215	$ (41,243)	$ 29,215	$ (41,243)

Other asset-backed	–	–	45	(5,620)	45	(5,620)
Total temporarily impaired securities	$ –	$ –	$ 29,260	$ (46,863)	$ 29,260	$ (46,863)

The Company holds 13 investment securities available-for-sale that have been in a loss position for more than 12 months. The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

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

- the length of time the market value has been less than amortized cost;
- the severity of the impairment;
- the expected loss of the security as generated by third party software;
- credit ratings from the rating agencies;
- underlying credit fundamentals of the collateral backing the securities; and
- the Company's intent to sell as well as the likelihood that the Company will be required to sell the security before the recovery of the amortized cost basis.

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NOTE 5 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (continued)

At December 31, 2009 and 2008, the Company held $44.5 million and $29.2 million, respectively, net of net unrealized losses of $47.6 million and $41.2 million, respectively, of CMBS at fair value which for the Company's positions purchased in 2009 is based on dealer quotes due to their higher ratings and more active markets and for the Company's positions purchased prior to 2009 is based on taking a weighted average of the following three measures:

- an income approach utilizing an appropriate current risk-adjusted yield, time value and projected estimated losses from default assumptions based on historical analysis of underlying loan performance;
- quotes on similar-vintage, higher rated, more actively traded CMBS adjusted for the lower subordination level of the Company's securities; and
- dealer quotes on the Company's securities for which there is not an active market.

During the three months ended March 31, 2009, a collateral position that supported the Company's other-ABS investment weakened to the point that default of that position became probable. As a result, the Company recognized a $5.6 million other-than-temporary impairment on its other-ABS investment as of March 31, 2009 and an additional $45,000 of other-than-temporary impairment on this investment during the three months ended June 30, 2009 bringing the fair value to $0. During the three months ended December 31, 2009, two collateral positions that supported the Company's CMBS portfolio weakened to the point that default of these positions became probable. The assumed default of these collateral positions in the Company's cash flow model yielded a value of less than full recovery of the Company's cost basis. The Company recognized a $6.9 million other-than-temporary impairment on its CMBS investments as of December 31, 2009 bringing the combined fair value to $206,000. The net impairment losses were recognized in earnings in the consolidated statements of operations.

While the Company's remaining securities classified as available-for-sale have continued to decline in fair value, the decline continues to be temporary. The Company performs an on-going review of third-party reports and updated financial data on the underlying property financial information to analyze current and projected loan performance. All securities but the ones described above are current with respect to interest and principal payments. Rating agency downgrades are considered with respect to the Company's income approach when determining other-than-temporary impairment and when inputs are stressed, the resulting projected cash flows reflect a full recovery of principal. The Company does not believe that any other of its securities classified as available-for-sale were other-than-temporarily impaired as of December 31, 2009.

During the years ended December 31, 2009, 2008 and 2007, the Company recognized a gain of $160,000, a loss of $2.0 million and $0, respectively, into earnings related to the sale of several CMBS private placement positions.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on mortgage-backed securities in the Company's investment portfolio. The Company seeks to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. At December 31, 2009, the aggregate discount exceeded the aggregate premium on the Company's mortgage-backed securities by approximately $29.1 million. At December 31, 2008, the aggregate discount exceeded the aggregate premium on the Company's mortgage-backed securities by approximately $3.7 million.

NOTE 6 – INVESTMENT SECURITIES HELD-TO-MATURITY

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2009:				
Collateralized loan obligations	$31,401	$267	$(10,348)	$21,320
Total	$31,401	$267	$(10,348)	$21,320
December 31, 2008:				
Collateralized loan obligations	$28,157	$–	$(23,339)	$4,818
Total	$28,157	$–	$(23,339)	$4,818

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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DECEMBER 31, 2009

NOTE 6 – INVESTMENT SECURITIES HELD-TO-MATURITY – (continued)

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

Contractual Life	Fair Value	Amortized Cost
December 31, 2009:		
Greater than five years and less than ten years	$ 15,628	$ 19,667
Greater than ten years	5,692	11,734
Total	$ 21,320	$ 31,401
December 31, 2008:		
Greater than five years and less than ten years	$ 3,093	$ 12,487
Greater than ten years	1,725	15,670
Total	$ 4,818	$ 28,157

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2009:						
Collateralized loan obligations	$ 2,530	$ (44)	$ 10,980	$ (10,304)	$ 13,510	$ (10,348)
Total temporarily impaired securities	$ 2,530	$ (44)	$ 10,980	$ (10,304)	$ 13,510	$ (10,348)
December 31, 2008:						
Collateralized loan obligations	$ 2,688	$ (6,924)	$ 2,130	$ (16,415)	$ 4,818	$ (23,339)
Total temporarily impaired securities	$ 2,688	$ (6,924)	$ 2,130	$ (16,415)	$ 4,818	$ (23,339)

The Company holds 14 investment securities held-to-maturity that have been in a loss position for more than 12 months. The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

During the year ended December 31, 2009, based on a credit rating downgrade and the cash flow analysis performed, a collateral position that supported the investments held-to-maturity became impaired as the Company's cash flow model yielded a value of less than full recovery of the Company's cost basis. As a result, the Company recognized an $895,000 other-than-temporary impairment on one of its investments held-to-maturity as of December 31, 2009. As a result of the impairment charges, the cost of this security was written down to fair value through net impairment losses

recognized in earnings in the consolidated statements of operations.

The Company does not believe that any other of its investments classified as held-to-maturity were other-than-temporarily impaired as of December 31, 2009.

During the year ended December 31, 2009, based on the downgrading of the issuers' published credit rating, the Company sold three securities held-for-maturity. The Company has the intent and ability to hold its remaining securities until maturity.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 7 – LOANS HELD FOR INVESTMENT

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

Loan Description	Principal	Unamortized (Discount) Premium	Carrying Value (1)
December 31, 2009:			
Bank loans (2)	$893,183	$ (27,682)	$865,501
Commercial real estate loans:			
Whole loans	484,464	(269)	484,195
B notes	81,450	27	81,477
Mezzanine loans	182,523	163	182,686
Total commercial real estate loans	748,437	(79)	748,358
Subtotal loans before allowances	1,641,620	(27,761)	1,613,859
Allowance for loan loss	(47,122)	–	(47,122)
Total	$1,594,498	$ (27,761)	$1,566,737
December 31, 2008:			
Bank loans (2)	$916,966	$ (7,616)	$909,350
Commercial real estate loans:			
Whole loans	521,015	(1,678)	519,337
B notes	89,005	64	89,069
Mezzanine loans	215,255	(4,522)	210,733
Total commercial real estate loans	825,275	(6,136)	819,139
Subtotal loans before allowances	1,742,241	(13,752)	1,728,489
Allowance for loan loss	(43,867)	–	(43,867)
Total	$1,698,374	$ (13,752)	$1,684,622

(1) Substantially all loans are pledged as collateral under various borrowings at December 31, 2009 and December 31, 2008.

(2) Amounts include $8.1 million and $9.0 million of loans held for sale as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, approximately 39.0% and 39.2%, respectively of the Company's commercial real estate loan portfolio was concentrated in commercial real estate loans located in California and 12.4% and 11.4%, respectively were concentrated in New York. As of December 31, 2009 and 2008, approximately 12.4% and 11.1%, respectively, of the Company's bank loan portfolio was concentrated in the collective industry grouping of healthcare, education and childcare.

At December 31, 2009, the Company's bank loan portfolio consisted of $847.7 million (net of allowance of $17.8 million) of floating rate loans, which bear interest ranging between the London Interbank Offered Rate ("LIBOR") plus 18.25% and LIBOR plus 0.50% with maturity dates ranging from June 2011 to August 2022.

At December 31, 2008, the Company's bank loan portfolio consisted of $880.6 million (net of allowance of $28.8 million) of floating rate loans, which bore interest ranging between LIBOR plus 0.97% and LIBOR plus 10.0% with maturity dates ranging from March 2009 to August 2022.

The following table shows the changes in the allowance for loan loss (in thousands):

Allowance for loan loss at January 1, 2008	$5,918
Reserve charged to expense	45,259
Loans charged-off	(7,310)
Recoveries	–
Allowance for loan loss at January 1, 2009	43,867
Reserve charged to expense	58,711
Loans charged-off	(55,456)
Recoveries	–
Allowance for loan loss at December 31, 2009	$47,122

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

NOTE 7 – LOANS HELD FOR INVESTMENT – (continued)

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

Description	Quantity		Amortized Cost	Contracted Interest Rates	Maturity Dates (3)
December 31, 2009:					
Whole loans, floating rate (1)	32	$	403,890	LIBOR plus 1.50% to LIBOR plus 4.40%	May 2010 to February 2017
Whole loans, fixed rate (1)	6		80,305	6.98% to 10.00%	May 2010 to August 2012
B notes, floating rate	3		26,500	LIBOR plus 2.50% to LIBOR plus 3.01%	July 2010 to October 2010
B notes, fixed rate	3		54,977	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	10		124,048	LIBOR plus 2.15% to LIBOR plus 3.45%	May 2010 to January 2013
Mezzanine loans, fixed rate	5		58,638	8.14% to 11.00%	May 2010 to September 2016
Total (2)	59	$	748,358		
December 31, 2008:					
Whole loans, floating rate (1)	29	$	431,985	LIBOR plus 1.50% to LIBOR plus 4.40%	April 2009 to August 2011
Whole loans, fixed rate (1)	7		87,352	6.98% to 10.00%	May 2009 to August 2012
B notes, floating rate	4		33,535	LIBOR plus 2.50% to LIBOR plus 3.01%	March 2009 to October 2009
B notes, fixed rate	3		55,534	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	10		129,459	LIBOR plus 2.15% to LIBOR plus 3.45%	May 2009 to February 2010
Mezzanine loans, fixed rate	7		81,274	5.78% to 11.00%	November 2009 to September 2016
Total (2)	60	$	819,139		

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(1) Whole loans had $5.6 million and $26.6 million in unfunded loan commitments as of December 31, 2009 and 2008, respectively, that are funded as the loans require additional funding and the related borrowers have satisfied the requirements to obtain this additional funding.

(2) The total does not include an allowance for loan losses of $29.3 million and $15.1 million recorded as of December 31, 2009 and 2008, respectively.
(3) Excludes two floating rate whole loans. One whole loan matured in July 2009 and is in foreclosure. The other whole loan that matured is on a month-to-month extension and is current with respect to interest.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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NOTE 7 – LOANS HELD FOR INVESTMENT – (continued)

As of December 31, 2009, the Company had recorded an allowance for loan loss of $47.1 million consisting of a $17.8 million allowance on the Company's bank loan portfolio and a $29.3 million allowance on the Company's commercial real estate portfolio as a result of the Company having seven bank loans and three commercial real estate loan that were deemed impaired as well as the establishment of a general reserve on these portfolios. As of December 31, 2008, the Company had recorded an allowance for loan loss of $43.9 million consisting of a $28.8 million allowance on the Company's bank loan portfolio and a $15.1 million allowance on the Company's commercial real estate portfolio as a result of the Company having ten bank loans and one commercial real estate loan that were deemed impaired as well as the establishment of a general reserve on these portfolios.

The Company had one mezzanine loan, with a balance of $11.6 million secured by equity interests in two enclosed regional malls that went into default in February 2008. During the three months ended June 30, 2008, the Company recorded a provision for loan loss on the full balance. The Company does not expect to recover any of this loan balance.

The Company has a portfolio of whole loans, with a cost balance of $66.8 million secured by multifamily properties in Northern California. The Company decided to liquidate a substantial portion of the underlying collateral securing these loans and, as a result, the Company took an $18.8 million provision for loan loss during 2009. This portfolio of loans was restructured and modified in 2010 after the final sale of certain of the collateral properties. The modified loan balance after application of the 2010 sales proceeds of $8.3 million and the 2009 provisions taken was $39.7 million and is supported under its modified terms by the current cash flow from the remaining collateral properties. The Company has determined that this was a troubled debt restructuring.

NOTE 8 –DIRECT FINANCING LEASES AND NOTES

On June 30, 2009, the Company sold its sole membership interest in one of its subsidiaries that held a pool of leases valued at $89.8 million and transferred the $82.3 million balance of the related secured term facility to Resource America. No gain or loss was recognized on the sale of this membership interest. The Company received a note of $7.5 million from Resource America for the equity in the portfolio on June 30, 2009. The promissory note bore interest at LIBOR plus 3% and matured on September 30, 2009. On July 1, 2009, $4.5 million of the promissory note was repaid. The remaining principal balance of the note of $3.0 million was paid in full on August 3, 2009. The balance of direct financing leases and notes was $927,000 and $104.0 million as of December 31, 2009 and 2008, respectively.

At December 31, 2009, the Company had 18 leases that were sufficiently delinquent with respect to scheduled payments of interest that the Company determined that an allowance for lease loss was necessary. As a result, the Company recorded a provision for lease losses of $2.0 million. The Company increased the general reserve by $240,000 during the three months ended December 31, 2009 to bring the total general reserve to $1.1 million at December 31, 2009. At December 31, 2008, the Company had seven leases that were sufficiently delinquent with respect to scheduled payments of interest that the Company determined that an allowance for lease losses was necessary. As a result, the Company recorded a provision for lease losses of $451,000. The Company also recorded a general reserve of $300,000 during the three months ended December 31, 2008 to bring the general reserve to $450,000 at December 31, 2008.

The following table shows the changes in the allowance for lease loss (in thousands):

Allowance for lease loss at January 1, 2008	$–
Provision for lease loss	901
Leases charged-off	(451)
Recoveries	–
Allowance for lease loss at December 31, 2008	450
Provision for lease loss	2,672
Leases charged off	(1,994)
Recoveries	12
Allowance for lease loss at December 31, 2009	$1,140

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NOTE 9 – BORROWINGS

The Company has financed the acquisition of its investments, including securities available-for-sale, loans and equipment leases and notes, primarily through the use of secured and unsecured borrowings in the form of CDOs, repurchase agreements, a secured term facility, warehouse facilities, trust preferred securities issuances and other secured and unsecured borrowings.

Certain information with respect to the Company's borrowings at December 31, 2009 and 2008 is summarized in the following table (dollars in thousands):

	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
December 31, 2009:				
RREF CDO 2006-1 Senior Notes (2)	$ 240,227	1.11%	36.6 years	$ 267,153
RREF CDO 2007-1 Senior Notes (3)	346,673	0.81%	36.8 years	435,225
Apidos CDO I Senior Notes (4)	319,103	0.86%	7.6 years	290,578
Apidos CDO III Senior Notes (5)	260,158	0.71%	10.5 years	237,499
Apidos Cinco CDO Senior Notes (6)	318,791	0.78%	10.4 years	299,874
Unsecured Junior Subordinated Debentures (7)	51,548	6.19%	26.7 years	–
Total	$ 1,536,500	1.02%	20.4 years	$ 1,530,329
December 31, 2008:				
Repurchase Agreements (1)	$ 17,112	3.50%	18.0 days	$ 39,703
RREF CDO 2006-1 Senior Notes (2)	261,198	1.38%	37.6 years	322,269
RREF CDO 2007-1 Senior Notes (3)	377,851	1.15%	37.8 years	467,310
Apidos CDO I Senior Notes (4)	318,469	4.03%	8.6 years	206,799
Apidos CDO III Senior Notes (5)	259,648	2.55%	11.5 years	167,933
Apidos Cinco CDO Senior Notes (6)	318,223	2.64%	11.4 years	207,684
Secured Term Facility	95,714	4.14%	1.3 years	104,015
	51,548	6.42%	27.7 years	–

Unsecured Junior Subordinated Debentures (7)						
Total	$	1,699,763	2.57%	20.6 years	$	1,515,713

(1) At December 31, 2008, collateral consisted of a RREF CDO 2007-1 Class H bond that was retained at closing with a carrying value of $3.9 million and loans with a carrying value of $35.8 million.

(2) Amount represents principal outstanding of $243.5 million and $265.5 million less unamortized issuance costs of $3.3 million and $4.3 million as of December 31, 2009 and December 31, 2008, respectively. This CDO transaction closed in August 2006.

(3) Amount represents principal outstanding of $351.2 million less unamortized issuance costs of $4.6 million as of December 31, 2009 and principal outstanding of $383.8 million less unamortized issuance costs of $5.9 million as of December 31, 2008. This CDO transaction closed in June 2007.

(4) Amount represents principal outstanding of $321.5 million less unamortized issuance costs of $2.4 million as of December 31, 2009 and $3.0 million as of December 31, 2008. The CDO transaction closed in August 2005.

(5) Amount represents principal outstanding of $262.5 million less unamortized issuance costs of $2.3 million as of December 31, 2009 and $2.9 million as of December 31, 2008. This CDO transaction closed in May 2006.

(6) Amount represents principal outstanding of $322.0 million less unamortized issuance costs of $3.3 million as of December 31, 2009 and $3.8 million as of December 31, 2008. This CDO transaction closed in May 2007.

(7) Amount represents junior subordinated debentures issued to Resource Capital Trust I and RCC Trust II in May 2006 and September 2006, respectively.

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DECEMBER 31, 2009

NOTE 9 – BORROWINGS – (continued)

The Company had no repurchase agreements at December 31, 2009. At December 31, 2008, the Company had repurchase agreements with the following counterparties (dollars in thousands):

	Amount at Risk (1)	Weighted Average Maturity in Days	Weighted Average Interest Rate
December 31, 2008:			
Natixis Real Estate Capital Inc.	$ 18,992	18	3.50%
Credit Suisse Securities (USA) LLC	$ 3,793	23	4.50%

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

Repurchase and Credit Facilities

Commercial Real Estate Loan – Term Repurchase Facility

In April 2007, the Company's indirect wholly-owned subsidiary, RCC Real Estate SPE 3, LLC, entered into a master repurchase agreement with Natixis Real Estate Capital, Inc. to be used as a warehouse facility to finance the purchase of commercial real estate loans and commercial mortgage-backed securities. The Company guaranteed RCC Real Estate SPE 3, LLC's performance of its obligations under the repurchase agreement. At December 31, 2009, all borrowings under the repurchase agreement were repaid. At December 31, 2008, RCC Real Estate SPE 3 had borrowed $17.0 million, all of which the Company had guaranteed. At December 31, 2008, borrowings under the repurchase agreement were secured by commercial real estate loans with an estimated fair value of $35.8 million and had a weighted average interest rate of one-month LIBOR plus 2.30%, which was 3.50% at December 31, 2008.

Through a series of amendments entered into in 2008 and 2009 between RCC Real Estate SPE 3 and Natixis, the term repurchase facility and the related guaranty have been amended as follows:

- The amount of the facility was reduced from $150,000,000 to $100,000,000.
- The amount of the facility will further be reduced to the amount outstanding on October 18, 2009.
- Beginning on November 25, 2008, any further repurchase agreement transactions may be made in Natixis' sole discretion. In addition, premiums over new repurchase prices are required for early repurchase by RCC Real Estate SPE 3 of the existing assets that represent collateral under the facility; however, the premiums will reduce the repurchase price of the remaining existing assets.
- RCC Real Estate SPE 3's obligation to pay non-usage fees was terminated.
- The weighted average undrawn balance (as defined in the agreement) threshold exempting payment of the non-usage fee was reduced from $75,000,000 to $56,250,000.

- The minimum net worth covenant amount was reduced from $250,000,000 to $125,000,000.

Commercial Real Estate Loans – Non-term Repurchase Facilities

In March 2005, the Company entered into a master repurchase agreement with Credit Suisse Securities (USA) LLC to finance the purchase of agency residential MBS (“RMBS”) securities. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. These are one-month contracts. At December 31, 2009, all borrowings under the repurchase agreement had been repaid. At December 31, 2008, the Company had borrowed $90,000 with a weighted average interest rate of 4.50% and borrowings under the repurchase agreement were secured by a RREF CDO 2007-1 Class H bond that was retained at closing with a carrying value of $3.9 million.

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NOTE 9 – BORROWINGS – (continued)

Repurchase and Credit Facilities – (continued)

Secured Term Facility

In March 2006, the Company entered into a secured term credit facility with Bayerische Hypo-Und Vereinsbank AG (“HVB”) to finance the purchase of equipment leases and notes. On June 30, 2009, in connection with the sale of the Company’s leasing subsidiary to Resource America, the Company transferred its remaining balance to Resource America. As of December 31, 2008, the Company had borrowed $95.7 million at a weighted average interest rate of 4.14%.

Collateralized Debt Obligations

Resource Real Estate Funding CDO 2007-1

In June 2007, the Company closed RREF CDO 2007-1, a $500.0 million CDO transaction that provides financing for commercial real estate loans and commercial mortgage-backed securities. The investments held by RREF CDO 2007-1 collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. RREF CDO 2007-1 issued a total of $265.6 million of senior notes at par to unrelated investors. RCC Real Estate purchased 100% of the class H senior notes (rated BBB+:Fitch), class K senior notes (rated BBB-:Fitch), class L senior notes (rated BB:Fitch) and class M senior notes (rated B: Fitch) for $68.0 million. In addition, Resource Real Estate Funding 2007-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $41.3 million equity interest representing 100% of the outstanding preference shares. The senior notes purchased by RCC Real Estate are subordinated in right of payment to all other senior notes issued by RREF CDO 2007-1 but are senior in right of payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by RREF CDO 2007-1.

The senior notes issued to investors by RREF CDO 2007-1 consist of the following classes: (i) $180.0 million of class A-1 notes bearing interest at one-month LIBOR plus 0.28%; (ii) $50.0 million of unissued class A-1R notes, which allow the CDO to fund future funding obligations under the existing whole loan participations that have future funding commitments; the undrawn balance of the class A-1R notes will accrue a commitment fee at a rate per annum equal to 0.18%, the drawn balance will bear interest at one-month LIBOR plus 0.32%; (iii) $57.5 million of class A-2 notes bearing interest at one-month LIBOR plus 0.46%; (iv) $22.5 million of class B notes bearing interest at one-month LIBOR plus 0.80%; (v) $7.0 million of class C notes bearing interest at a fixed rate of 6.423%; (vi) $26.8 million of class D notes bearing interest at one-month LIBOR plus 0.95%; (vii) $11.9 million of class E notes bearing interest at one-month LIBOR plus 1.15%; (viii) $11.9 million of class F notes bearing interest at one-month LIBOR plus 1.30%; (ix) $11.3 million of class G notes bearing interest at one-month LIBOR plus 1.55%; (x) $11.3 million of class H notes bearing interest at one-month LIBOR plus 2.30%; (xi) $11.3 million of class J notes bearing interest at one-month LIBOR plus 2.95%; (xii) $10.0 million of class K notes bearing interest at one-month LIBOR plus 3.25%; (xiii) $18.8 million of class L notes bearing interest at a fixed rate of 7.50% and (xiv) $28.8 million of class M notes bearing interest at a fixed rate of 8.50%. All of the notes issued mature in September 2046, although the Company has the right to call the notes anytime after July 2017 until maturity. The weighted average interest rate on all notes issued to outside investors and net of repurchased notes was 0.81% and 1.15% at December 31, 2009 and 2008, respectively.

During the year ended December 31, 2009, the Company repurchased $33.5 million of the Class E, F, G and J notes in RREF CDO 2007-1 at a weighted average price of 25.66% to par which resulted in a $24.9 million gain, reported as a gain on the extinguishment of debt in the consolidated statements of operations. During the year ended December 31, 2008, the Company repurchased $5.0 million of the Class J notes in RREF CDO 2007-1 at a price of 65.0% to par which resulted in a $1.75 million gain, reported as a gain on the extinguishment of debt in its consolidated statements of operations.

As a result of the Company's ownership of Class E, F, G, H, J, K, L and M senior notes, both the notes repurchased subsequent to closing and those retained at the CDO's closing eliminate in consolidation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

NOTE 9 – BORROWINGS – (continued)

Collateralized Debt Obligations – (continued)

Resource Real Estate Funding CDO 2006-1

In August 2006, the Company closed RREF CDO 2006-1, a $345.0 million CDO transaction that provides financing for commercial real estate loans. The investments held by RREF CDO 2006-1 collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. RREF CDO 2006-1 issued a total of $308.7 million of senior notes at par to investors of which RCC Real Estate purchased 100% of the class J senior notes (rated BB: Fitch) and class K senior notes (rated B:Fitch) for $43.1 million. In addition, Resource Real Estate Funding 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $36.3 million equity interest representing 100% of the outstanding preference shares. The senior notes purchased by RCC Real Estate are subordinated in right of payment to all other senior notes issued by RREF CDO 2006-1 but are senior in right of payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by RREF CDO 2006-1.

The senior notes issued to investors by RREF CDO 2006-1 consist of the following classes: (i) $129.4 million of class A-1 notes bearing interest at one-month LIBOR plus 0.32%; (ii) $17.4 million of class A-2 notes bearing interest at one-month LIBOR plus 0.35%; (iii) $5.0 million of class A-2 notes bearing interest at a fixed rate of 5.842%; (iv) $6.9 million of class B notes bearing interest at one-month LIBOR plus 0.40%; (v) $20.7 million of class C notes bearing interest at one-month LIBOR plus 0.62%; (vi) $15.5 million of class D notes bearing interest at one-month LIBOR plus 0.80%; (vii) $20.7 million of class E notes bearing interest at one-month LIBOR plus 1.30%; (viii) $19.8 million of class F notes bearing interest at one-month LIBOR plus 1.60%; (ix) $17.3 million of class G notes bearing interest at one-month LIBOR plus 1.90%; (x) $12.9 million of class H notes bearing interest at one-month LIBOR plus 3.75%, (xi) $14.7 million of Class J notes bearing interest at a fixed rate of 6.00% and (xii) $28.4 million of Class K notes bearing interest at a fixed rate of 6.00%. As a result of the Company's ownership of the Class J and K senior notes, these notes eliminate in consolidation. All of the notes issued mature in August 2046, although the Company has the right to call the notes anytime after August 2016 until maturity. The weighted average interest rate on all notes issued to outside investors and net of repurchased notes was 1.11% and 1.38% at December 31, 2009 and 2008, respectively.

During the year ended December 31, 2009, the Company repurchased $33.5 million of the Class E, F, G and J notes in RREF CDO 2007-1 at a weighted average price of 25.66% to par which resulted in a $24.9 million gain, reported as a gain on the extinguishment of debt in the consolidated statements of operations. During the year ended December 31, 2008, the Company repurchased $5.0 million of the Class J notes in RREF CDO 2007-1 at a price of 65.0% to par which resulted in a $1.75 million gain, reported as a gain on the extinguishment of debt in its consolidated statements of operations.

As a result of the Company's ownership of Class D, E, F, J and K senior notes, both the notes repurchased subsequent to closing and those retained at the CDO's closing eliminate in consolidation.

Apidos Cinco CDO

In May 2007, the Company closed Apidos Cinco CDO, a $350.0 million CDO transaction that provides financing for bank loans. The investments held by Apidos Cinco CDO collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos Cinco CDO issued a total of $322.0 million of senior notes at par to investors and RCC commercial purchased a $28.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos Cinco CDO.

The senior notes issued to investors by Apidos Cinco CDO consist of the following classes: (i) $37.5 million of class A-1 notes bearing interest at LIBOR plus 0.24%; (ii) $200.0 million of class A-2a notes bearing interest at LIBOR plus 0.23%; (iii) $22.5 million of class A-2b notes bearing interest at LIBOR plus 0.32%; (iv) $19.0 million of class A-3 notes bearing interest at LIBOR plus 0.42%; (v) $18.0 million of class B notes bearing interest at LIBOR plus 0.80%; (vi) $14.0 million of class C notes bearing interest at LIBOR plus 2.25% and (vii) $11.0 million of class D notes bearing interest at LIBOR plus 4.25%. All of the notes issued mature on May 14, 2020, although the Company has the right to call the notes anytime after May 14, 2011 until maturity. The weighted average interest rate on all notes was 0.78% and 2.64% at December 31, 2009 and 2008, respectively.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

NOTE 9 – BORROWINGS – (continued)

Collateralized Debt Obligations – (continued)

Apidos CDO III

In May 2006, the Company closed Apidos CDO III, a $285.5 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO III collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO III issued a total of $262.5 million of senior notes at par to investors and RCC Commercial purchased a $23.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos CDO III.

The senior notes issued to investors by Apidos CDO III consist of the following classes: (i) $212.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) $19.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.45%; (iii) $15.0 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) $10.5 million of class C notes bearing interest at 3-month LIBOR plus 1.75%; and (v) $6.0 million of class D notes bearing interest at 3-month LIBOR plus 4.25%. All of the notes issued mature on June 12, 2020, although the Company has the right to call the notes anytime after June 12, 2011 until maturity. The weighted average interest rate on all notes was 0.71% and 2.55% at December 31, 2009 and 2008, respectively.

Apidos CDO I

In August 2005, the Company closed Apidos CDO I, a $350.0 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO I collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO I issued a total of $321.5 million of senior notes at par to investors and RCC Commercial purchased a $28.5 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos CDO I.

The senior notes issued to investors by Apidos CDO I consist of the following classes: (i) $265.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) $15.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.42%; (iii) $20.5 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) $13.0 million of class C notes bearing interest at 3-month LIBOR plus 1.85%; and (v) $8.0 million of class D notes bearing interest at a fixed rate of 9.251%. All of the notes issued mature on July 27, 2017, although the Company has the right to call the notes anytime after July 27, 2010 until maturity. The weighted average interest rate on all notes was 0.86% and 4.03% at December 31, 2009 and 2008, respectively.

Unsecured Junior Subordinated Debentures

In May 2006 and September 2006, the Company formed RCT I and RCT II, respectively, for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. Although the Company owns 100% of the common securities of RCT I and RCT II, RCT I and RCT II are not consolidated into the Company's consolidated financial statements because the Company is not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, the Company issued junior subordinated debentures to RCT I and

RCT II of $25.8 million each, representing the Company's maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2008 were $691,000 and $701,000, respectively. These costs which are included in other assets are being amortized into interest expense in the consolidated statements of operations using the effective yield method over a ten year period.

In October 2009, the Company amended the trust agreements and unsecured junior subordinated debentures held by RCT I and RCT II with a total value outstanding of $51.5 million. The amendment provides for an interest rate increase of 2% (from LIBOR plus 3.95% to LIBOR plus 5.95%) on both issuances for a period of two years and a one-time restructuring fee of $250,000 in exchange for the waiver of financial covenants under the Company's guarantee. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2009 were $742,000 and $754,000, respectively. The interest rate adjustment took effect as of October 1, 2009 and expires on September 30, 2011. The rates for RCT I and RCT II, at December 31, 2009, were 6.18% and 6.19%, respectively. The rates for RCT I and RCT II, at December 31, 2008, were 5.42% and 7.42%, respectively. The covenant waiver expires on January 1, 2012.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 9 – BORROWINGS – (continued)

Unsecured Junior Subordinated Debentures – (continued)

The rights of holders of common securities of RCT I and RCT II are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of RCT I and RCT II are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, RCT I will dissolve on May 25, 2041 and RCT II will dissolve on September 29, 2041. The junior subordinated debentures are the sole assets of RCT I and RCT II and mature on June 30, 2036 and October 30, 2036, respectively, and may be called at par by the Company any time after June 30, 2011 and October 30, 2011, respectively. The Company records its investments in RCT I and RCT II's common securities of $774,000 each as investments in unconsolidated trusts and records dividend income upon declaration by RCT I and RCT II.

NOTE 10 – SHARE ISSUANCE AND REPURCHASE

On December 11, 2009, the Company sold 10,294,455 shares of common stock (including 294,455 shares of common stock in connection with the partial exercise by the underwriters of their over-allotment option), at a price of $4.50 per share, in a public offering. The Company received net proceeds of approximately $43.4 million after payment of underwriting discounts and commissions of approximately $2.5 million and other offering expenses of approximately $539,000.

Under a dividend reinvestment plan authorized by the board of directors on June 12, 2008, the Company was authorized to issue up to 5.5 million shares of common stock. During the year ended December 31, 2009, the Company issued 1.9 million shares of common stock through this plan at a weighted average price of $4.87 per share and received proceeds of $9.0 million (net of costs).

Under a share repurchase plan authorized by the board of directors on July 26, 2007, the Company is authorized to repurchase up to 2.5 million of its outstanding common shares. During the year ended December 31, 2009, the Company bought back 1.4 million shares, at a weighted average price of $3.60 per share. The Company has repurchased a total of 1,663,000 shares under this program as of December 31, 2009.

NOTE 11 – SHARE-BASED COMPENSATION

The following table summarizes restricted common stock transactions:

	Non-Employee Directors	Non-Employees	Total
Unvested shares as of January 1, 2009	17,261	435,049	452,310
Issued	52,632	197,500	250,132
Vested	(17,261)	(239,671)	(256,932)
Forfeited	–	(8,191)	(8,191)
Unvested shares as of December 31, 2009	52,632	384,687	437,319

The Company is required to value any unvested shares of restricted common stock granted to non-employees at the current market price. The estimated fair value of the unvested shares of restricted stock granted during the years ended December 31, 2009 and 2008, including shares issued to the five non-employee directors, was $709,000 and $1.5 million, respectively.

On January 26, 2009, the Company issued 40,452 shares of restricted common stock under its 2007 Omnibus Equity Compensation Plan. These restricted shares vested in full on January 26, 2010.

On January 29, 2009, the Company issued 37,500 shares of restricted common stock under its 2007 Omnibus Equity Compensation Plan. These restricted shares vested 33.3% on January 29, 2010. The balance will vest annually thereafter through January 29, 2012.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 11 – SHARE-BASED COMPENSATION – (continued)

On February 1, 2009 and March 9 2009, the Company granted 6,716 and 45,916 shares of restricted stock, respectively, under its 2005 Stock Incentive Plan and 2007 Omnibus Equity Compensation Plan, respectively, to the Company's non-employee directors as part of their annual compensation. These shares vested in full on the first anniversary of the date of grant.

On February 2, 2009, the Company granted 60,000 shares of restricted stock under its 2007 Omnibus Equity Compensation Plan. These restricted shares vested 25% on issuance and 12.5% on March 31, 2009, June 30, 2009, September 30, 2009 and December 31, 2009. The balance will vest quarterly thereafter through June 30, 2010.

On February 20, 2009, the Company granted 35,046 shares of restricted stock under its 2007 Omnibus Equity Compensation Plan. These restricted shares vested in full on February 20, 2010.

On July 30, 2009, the Company granted 24,502 shares of restricted stock under its 2007 Omnibus Equity Compensation Plan. These restricted shares will vest in full on July 30, 2010.

The following table summarizes stock option transactions:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2009	624,166	$ 14.99		
Granted	–	–		
Exercised	–	–		
Forfeited	(16,500)	15.00		
Outstanding as of December 31, 2009	607,666	$ 14.99	5	$ 545
Exercisable at December 31, 2009	586,000	$ 14.99	5	$ 526

The stock options have a remaining contractual term of five years. Upon exercise of options, new shares are issued.

The following table summarizes the status of the Company's unvested stock options as of December 31, 2009:

Unvested Options	Options	Weighted Average Grant Date Fair Value
Unvested at January 1, 2009	43,333	$ 14.88
Granted	–	–
Vested	(21,667)	$ 14.88
Forfeited	–	–

Unvested at December 31, 2009	21,666	$	14.88

The weighted average period the Company expects to recognize the remaining expense on the unvested stock options is less than one year.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 11 – SHARE-BASED COMPENSATION – (continued)

The following table summarizes the status of the Company's vested stock options as of December 31, 2009:

Vested Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Vested as of January 1, 2009	580,833	$ 15.00		
Vested	21,667	$ 14.88		
Exercised	–	$ –		
Forfeited	(16,500)	$ 15.00		
Vested as of December 31, 2009	586,000	$ 14.99	5	$ 539

The stock option transactions are valued using the Black-Scholes model with the following assumptions:

	As of December 31,		
	2009	2008	2007
Expected life	7 years	8 years	7 years
Discount rate	3.53%	2.94%	3.97%
Volatility	137.86%	127.20%	42.84%
Dividend yield	20.33%	33.94%	17.62%

The estimated fair value of each option granted at December 31, 2009 and 2008 was $.897 and $0.149, respectively. For the years ended December 31, 2009, 2008 and 2007, the components of equity compensation expense were as follows (in thousands):

	December 31,		
	2009	2008	2007
Options granted to Manager and non-employees	$ 15	$ (52)	$ (91)
Restricted shares granted to Manager and non-employees	1,113	486	1,582
Restricted shares granted to non-employee directors	112	106	74
Total equity compensation expense	$ 1,240	$ 540	$ 1,565

During the year ended December 31, 2009 and 2008, the Manager received 169,431 and 60,078 shares as incentive compensation valued $867,000 and $341,000 pursuant to the Management Agreement. The incentive management fee is paid one quarter in arrears.

Apart from incentive compensation payable under the Management Agreement, the Company has established no formal criteria for equity awards as of December 31, 2009. All awards are discretionary in nature and subject to

approval by the compensation committee of the board of directors.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 12 –EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings per share for the periods presented as follows (in thousands, except share and per share amounts):

	December 31,		
	2009	2008	2007
Basic:			
Net Income (loss)	$6,339	$(3,074)	$8,890
Weighted average number of shares outstanding	25,205,403	24,757,386	24,610,468
Basic net income (loss) per share	$0.25	$(0.12)	$0.36
Diluted:			
Net Income (loss)	$6,339	$(3,074)	$8,890
Weighted average number of shares outstanding	25,205,403	24,757,386	24,610,468
Additional shares due to assumed conversion of dilutive instruments	150,418	–	249,716
Adjusted weighted-average number of common shares outstanding	25,355,821	24,757,386	24,860,184
Diluted net income (loss) per share	$0.25	$(0.12)	$0.36

Potentially dilutive shares relating to 253,975 shares of restricted stock are not included in the calculation of diluted net (loss) per share for the year ended December 31, 2008 because the effect was anti-dilutive.

NOTE 13 – THE MANAGEMENT AGREEMENT

On March 8, 2005, the Company entered into a Management Agreement pursuant to which the Manager provides the Company investment management, administrative and related services. The agreement was amended June 30, 2008 and further amended on October 16, 2009. Under the agreement, the Manager receives fees and is reimbursed for its expenses as follows:

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

- Incentive compensation calculated as follows: (i) twenty-five percent (25%) of the dollar amount by which (A) the Company's Adjusted Operating Earnings (before Incentive Compensation but after the Base Management Fee) for such quarter per Common Share (based on the weighted average number of Common Shares outstanding for such quarter) exceeds (B) an amount equal to (1) the weighted average of the price per share of the Common Shares in the initial offering by the Company and the prices per share of the Common Shares in any subsequent offerings by the Company, in each case at the time of issuance thereof, multiplied by (2) the greater of (a) 2.00% and (b) 0.50%

plus one-fourth of the Ten Year Treasury Rate for such quarter, multiplied by (ii) the weighted average number of Common Shares outstanding during such quarter subject to adjustment; to exclude events pursuant to changes in GAAP or the application of GAAP, as well as non-recurring or unusual transactions or events, after discussion between the Manager and the Independent Directors and approval by a majority of the Independent Directors in the case of non-recurring or unusual transactions or events.

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

- The Manager provides the Company with a Chief Financial Officer and three accounting professionals, each of whom is exclusively dedicated to the Company's operations. The Manager also provides the Company with a director of investor relations who is 50% dedicated to the Company's operations. The Company bears the expense of the wages, salaries and benefits of the Chief Financial Officer and three accounting professionals, and bears 50% of the salary and benefits of the director of investor relations.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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NOTE 13 – THE MANAGEMENT AGREEMENT – (continued)

Incentive compensation is paid quarterly. Up to 75% of the incentive compensation is paid in cash and at least 25% is paid in the form of an award of common stock. The Manager may elect to receive more than 25% of its incentive compensation in common stock. All shares are fully vested upon issuance. However, the Manager may not sell such shares for one year after the incentive compensation becomes due and payable. Shares payable as incentive compensation are valued as follows:

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

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

- if there is no active market for such shares, the value shall be the fair market value thereof, as reasonably determined in good faith by the board of directors of the Company.

As amended, the Management Agreement had an initial term ended March 31, 2009 and automatically renewed for a one-year term annually unless at least two-thirds of the independent directors or a majority of the outstanding common shares agreed to not automatically renew such Management Agreement. The current term of the Management Agreement ends on March 31, 2010. With a two-thirds vote of the independent directors, the independent directors may elect to terminate the Management Agreement because of the following:

- unsatisfactory performance; and/or

- unfair compensation payable to the Manager where fair compensation cannot be agreed upon by the Company (pursuant to a vote of two-thirds of the independent directors) and the Manager.

In the event that the Management Agreement is terminated based on the above provisions, the Company must pay the Manager a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive during the two 12-month periods immediately preceding the date of such termination. The Company is also entitled to terminate the Management Agreement for cause (as defined therein) without payment of any termination fee.

In conjunction with the December 2009 common stock offering, it was determined that for the quarters ending on December 31, 2009 and March 31, 2010, the total incentive management fee payable to the Manager pursuant to the Amended and Restated Management Agreement dated as of June 30, 2008, shall not exceed $1.5 million per quarter.

The base management fee for the years ended December 31, 2009, 2008 and 2007 was $3.8 million, $4.5 million and $5.1 million, respectively. The manager earned an incentive management fee of $4.6 million of which $3.4 million was paid in cash and $1.2 million was paid in stock (217,149 shares) for the period from January 1, 2009 to December 31, 2009. The manager earned an incentive management fee of $1.8 million of which $1.3 million was paid in cash and $440,000 was paid in stock (86,489 shares) for the period from January 1, 2008 to December 31, 2008. The manager earned an incentive management fee of $1.5 million of which $924,000 was paid in cash and $551,000 was paid in stock (37,543 shares) for the period from January 1, 2007 to December 31, 2007.

At December 31, 2009, the Company was indebted to the Manager for base management fees of $371,000 incentive management fees of $1.5 million and expense reimbursements of $129,000. At December 31, 2008, the Company was indebted to the Manager for base management fees of $725,000, incentive management fees of $397,000 and expense reimbursements of $73,000. These amounts are included in accounts payable and other liabilities.

NOTE 14 – RELATED-PARTY TRANSACTIONS

Relationship with Resource America and Certain of its Subsidiaries

At December 31, 2009, Resource America, owned 2,192,009 shares, or 6.0%, of the Company's outstanding common stock. In addition, Resource America holds 2,166 options to purchase common stock.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 14 – RELATED-PARTY TRANSACTIONS – (continued)

Relationship with Resource America and Certain of its Subsidiaries – (continued)

The Company is managed by the Manager pursuant to the management agreement that provides for both base and incentive management fees. For the years ended December 31, 2009, 2008 and 2007, the Manager earned base management fees of approximately $3.8 million $4.5 million and $5.1 million, respectively, and earned $4.6 million, $1.8 million and $1.5 million, respectively, of incentive management fees. The Company also reimburses the Manager and Resource America for expenses and employees of Resource America who perform legal, accounting, due diligence and other services that outside professionals or consultants would otherwise perform. On October 16, 2009, the Company entered into an amendment to the management agreement. Pursuant to the amendment, the Manager must provide the Company with a Chief Financial Officer and three accounting professionals, each of whom will be exclusively dedicated to the operations of the Company. The Manager must also provide the Company with a director of investor relations who will be 50% dedicated to the Company's operations. The Company will bear the expense of the wages, salaries and benefits of the Chief Financial Officer and three accounting professionals and 50% of the salary and benefits of the director of investor relations. For the years ended December 31, 2009, 2008 and 2007, the Company paid the Manager $664,000, $392,000 and $507,000, respectively, as expense reimbursements. For a description of the management agreement and fees paid and payable to the Manager (see Note 13).

At December 31, 2009, the Company was indebted to the Manager for base management fees of $371,000, incentive management fees of $1.5 million and expense reimbursements of $129,000. At December 31, 2008, the Company was indebted to the Manager for base management fees of $725,000, incentive management fees of $397,000 and expense reimbursements of $73,000.

As of each of December 31, 2009 and 2008, the Company had executed six CDO transactions. These CDO transactions were structured for the Company by the Manager, but, under the management agreement the Manager was not separately compensated by the Company for these transactions.

On May 14, 2009, the Company borrowed $4.5 million from Resource America. The Company repaid the promissory note the same day and paid Resource America a commitment fee of $180,000.

On December 1, 2009, The Company purchased a membership interest in RRE VIP Borrower, LLC (an unconsolidated VIE that holds the Company's interests in a real estate joint venture) from Resource America at book value. This joint venture, which is structured as a credit facility with Varde Investment Partners, LP acting as lender, finances the acquisition of distressed properties and mortgage loans and has the objective of repositioning both the directly owned properties and the properties underlying the mortgage loans to enhance their value. The Company acquired the membership interests for $2.1 million. The agreement requires the Company to contribute 3% of the total funding required for each asset acquisition on a monthly basis. The investment balance of $2.1 million at December 31, 2009 is recorded as an investment in unconsolidated entities on our consolidated balance sheet.

On June 30, 2009, the Company sold its sole membership interest in one of its subsidiaries that held a pool of leases valued at $89.8 million and transferred the $82.3 million balance of the related secured term facility to Resource America. No gain or loss was recognized on the sale of this membership interest. The Company received a note of $7.5 million from Resource America for the equity in the portfolio on June 30, 2009. The promissory note bore

interest at LIBOR plus 3%. On July 1, 2009, $4.5 million of the promissory note was repaid. The remaining outstanding principal balance of the note of $3.0 million was paid in full on August 3, 2009.

Relationship with LEAF

LEAF Financial Corp. ("LEAF"), a majority-owned subsidiary of Resource America, originates and manages equipment leases and notes on the Company's behalf. The Company purchases its equipment leases and notes from LEAF at a price equal to their book value plus a reimbursable origination cost not to exceed 1% to compensate LEAF for its origination costs. During the year ended December 31, 2009, the Company did not acquire any equipment lease and note investments from LEAF. During the year ended December 31, 2008, the Company acquired $42.5 million of equipment lease and note investments from LEAF, including $425,000 of origination cost reimbursements. In addition, the Company pays LEAF an annual servicing fee, equal to 1% of the book value of managed assets, for servicing the Company's equipment leases and notes. At December 31, 2009 and 2008, the Company was indebted to LEAF for servicing fees in connection with the Company's equipment finance portfolio of $8,000 and $172,000, respectively. LEAF servicing fees for the years ended December 31, 2009, 2008 and 2007 were $505,000, $953,000 and $810,000, respectively.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
DECEMBER 31, 2009

NOTE 14 – RELATED-PARTY TRANSACTIONS – (continued)

Relationship with Resource Real Estate

Resource Real Estate, a subsidiary of Resource America, originates, finances and manages the Company's commercial real estate loan portfolio, including whole loans, A notes, B notes and mezzanine loans. The Company reimburses Resource Real Estate for loan origination costs associated with all loans originated. At December 31, 2009, the Company had no indebtedness to Resource Real Estate for loan origination costs in connection with the Company's commercial real estate loan portfolio. At December 31, 2008, the Company was indebted to Resource Real Estate for loan origination costs in connection with the Company's commercial real estate loan portfolio for $24,000.

Relationship with Law Firm

Until 1996, director Edward E. Cohen, a director who was the Company's Chairman from its inception until November 2009, was of counsel to Ledgewood, P.C., a law firm. In addition, one of the Company's executive officers, Jeffrey F. Brotman, was employed by Ledgewood until 2007. For the years ended December 31, 2009, 2008 and 2007, the Company paid Ledgewood $660,000, $164,000 and $361,000, respectively. Mr. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood and its redemption of his interest in the firm. Mr. Brotman also receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood.

NOTE 15 – DISTRIBUTIONS

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income in order not to be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute substantially all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation and provisions for loan and lease losses), in certain circumstances, the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow to make sufficient distribution payments.

The Company's 2010 dividends will be determined by the Company's board which will also consider the composition of any dividends declared, including the option of paying a portion in cash and the balance in additional common shares. Generally, dividends payable in stock are not treated as dividends for purposes of the deduction for dividends, or as taxable dividends to the recipient. The Internal Revenue Service, in Revenue Procedures 2009-15 and 2010-12, has given guidance with respect to certain stock distributions by publicly traded REITs. These Revenue Procedures apply to distributions made on or after January 1, 2008 and declared with respect to a taxable year ending on or before December 31, 2011. They provide that publicly-traded REITs can distribute stock (common shares in the Company's case) to satisfy their REIT distribution requirements if stated conditions are met. These conditions include that at least 10% of the aggregate declared distributions be paid in cash and the shareholders be permitted to elect whether to receive cash or stock, subject to the limit set by the REIT on the cash to be distributed in the aggregate to all shareholders. The Company did not use these Revenue Procedures with respect to any distributions for its 2008 and 2009 taxable years, but may do so for distributions with respect to 2010 and 2011.

During the year ended December 31, 2009, the Company declared and paid distributions totaling $31.8 million, or $1.15 per share. This includes $9.2 million, in the aggregate, declared on December 14, 2009 and paid on January 26, 2010 to stockholders of record as of December 31, 2009. During the year ended December 31, 2008, the Company declared and paid distributions totaling $40.7 million, or $1.60 per share. During the year ended December 31, 2007, the Company declared and paid distributions totaling $40.7 million, or $1.62 per share. For tax purposes, 100% of the distributions declared in 2009, 2008 and 2007 have been classified as ordinary income.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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DECEMBER 31, 2009

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company determines fair value based on quoted prices when available or, if quoted prices are not available, through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The hierarchy followed defines three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in the pricing of the asset or liability and are consequently not based on market activity, but rather through particular valuation techniques.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter; depending on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. However, the Company expects that changes in classifications between levels will be rare.

Certain assets and liabilities are measured at fair value on a recurring basis. The following is a discussion of these assets and liabilities as well as the valuation techniques applied to each for fair value measurement.

The Company classifies all of its investment securities as available-for-sale and reports them at fair value which for the Company's positions purchased in 2009 is based on dealer quotes due to their higher ratings and more active markets and for the Company's positions purchased prior to 2009 is based on taking a weighted average of the following three measures:

- an income approach utilizing an appropriate current risk-adjusted yield, time value and projected estimated losses from default assumptions based on analysis of underlying loan performance;
- quotes on similar-vintage, higher rate, more actively traded commercial mortgage-backed securities ("CMBS") adjusted as appropriate for the lower subordination level of the Company's securities; and
- dealer quotes on the Company's securities for which there is not an active market.

Derivatives (interest rate swap contracts), both assets and liabilities, are valued by a third-party pricing agent using an income approach and utilizing models that use as their primary basis readily observable market parameters. This valuation process considers factors including interest rate yield curves, time value, credit factors and volatility factors. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its

counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The following table presents information about the Company's assets (including derivatives that are presented net) measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale	$–	$–	$44,542	$44,542
Total assets at fair value	$–	$–	$44,542	$44,542
Liabilities:				
Derivatives (net)	$–	$12,767	$ –	$12,767
Total liabilities at fair value	$–	$12,767	$–	$12,767

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS – (continued)

The following table presents additional information about assets which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs.

	Level 3
Beginning balance, January 1, 2009	$ 29,260
Total gains or losses (realized/unrealized):	
Included in earnings	(10,956)
Purchases	26,967
Unrealized losses – included in accumulated other comprehensive income	(729)
Ending balance, December 31, 2009	$ 44,542

The Company had $12.6 million of losses included in earnings due to the other-than-temporary impairment charges of three assets during the year ended December 31, 2009. These losses are included in the consolidated statement of operations as net impairment losses recognized in earnings.

Loans held for sale consist of bank loans identified for sale due to credit issues. Interest on loans held for sale is recognized according to the contractual terms of the loan and included in interest income on loans. The fair value of loans held for sale and impaired loans is based on what secondary markets are currently offering for these loans. As such, the Company classifies loans held for sale and impaired loans as recurring Level 2. The amount of the adjustment for fair value for loans held for sale for the year ended December 31, 2009 was $15.2 million and is included in the consolidated statement of operations as provision for loan and lease loss. For loans where there is no market, the loans are measured using cash flows and other valuation techniques and these loans are classified as nonrecurring Level 3. The amount of nonrecurring fair value losses for impaired loans for the year ended December 31, 2009 was $45.7 million and is included in the consolidated statement of operations as provision for loan and lease loss.

The following table summarizes the financial assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Level 1	Level 2	Level 3	Total
Assets:				
Loans held for sale	$–	$8,050	$–	$8,050
Securities held-to-maturity	–	925	–	925
Impaired loans	–	3,195	102,793	105,988
Total assets at fair value	$–	$12,170	$102,793	$114,963

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair value of short-term financial instruments such as cash and cash equivalents, restricted cash, interest receivable, other assets, repurchase agreements, warehouse lending facilities and accrued interest expense approximates their carrying value on the consolidated balance sheet. The fair value of the Company’s investment securities available-for-sale is reported in Note 5. The fair value of the Company’s derivative instruments is reported in Note 17.

The fair values of the Company’s remaining financial instruments that are not reported at fair value on the consolidated statement of financial position are reported below.

	Fair Value of Financial Instruments (in thousands)			
	December 31, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Investment securities held-to-maturity	$ 31,401	$ 21,320	$ 28,157	$ 4,818
Loans held-for-investment	$ 1,558,687	$ 1,515,626	$ 1,684,622	$ 1,033,109
CDOs	$ 1,484,952	$ 857,262	$ 1,535,389	$ 690,926
Junior subordinated notes	$ 51,548	$ 18,042	$ 51,548	$ 10,310

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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NOTE 17 – INTEREST RATE RISK AND DERIVATIVE INSTRUMENTS

A significant market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. During periods of changing interest rates, interest rate mismatches could negatively impact the Company's consolidated financial condition, consolidated results of operations and consolidated cash flows. In addition, the Company mitigates the potential impact on net income of periodic and lifetime coupon adjustment restrictions in its investment portfolio by entering into interest rate hedging agreements such as interest rate caps and interest rate swaps.

In the next twelve months, the Company expects to reclassify $387,000 from accumulated other comprehensive loss to earnings. The amount relates to the termination of 18 hedges during the years ended December 31, 2006, 2007 and 2008 and the requirement for the remaining gains and losses to be amortized over the life of the remaining debt. In addition, in the next twelve months, the Company expects to pay $8.4 million in net interest expense for its hedges.

During the years ended December 31, 2009, 2008 and 2007, the Company recognized expense of $499,000, expense of $211,000 and income of $169,000, respectively, into earnings related to the amortization of gains and losses on 18 terminated hedges.

At December 31, 2009, the Company had 13 interest rate swap contracts outstanding whereby the Company paid an average fixed rate of 5.18% and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $217.9 million at December 31, 2009. In addition, the Company also has one interest rate cap agreement with an aggregate notional amount of $14.8 million outstanding whereby it reduced its exposure to variability in future cash flows attributable to LIBOR. The interest rate cap is a non-designated cash flow hedge and, as a result, the change in fair value is recorded through the consolidated statements of operations. The counterparty for all the Company's designated interest rate hedge contracts are with Credit Suisse International for which we have a master netting agreement.

At December 31, 2008, the Company had 31 interest rate swap contracts outstanding whereby the Company will paid an average fixed rate of 5.07% and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $325.0 million at December 31, 2008.

The estimated fair value of the Company's interest rate swaps was ($12.8) million and ($31.6) million as of December 31, 2009 and 2008, respectively. The Company had aggregate unrealized losses of $14.6 million and $33.8 million on the interest rate swap agreements, as of December 31, 2009 and 2008, respectively, which is recorded in accumulated other comprehensive loss. In connection with the August 2006 close of RREF CDO 2006-1, the Company realized a

swap termination loss of $119,000, which is being amortized over the maturity of RREF CDO 2006-1. The amortization is reflected in interest expense in the Company's consolidated statements of operations. In connection with the June 2007 close of RREF CDO 2007-1, the Company realized a swap termination gain of $2.6 million, which is being amortized over the maturity of RREF CDO 2007-1. The accretion is reflected in interest expense in the Company's consolidated statements of operations. In connection with the termination of a $53.6 million swap related to RREF CDO 2006-1 during the nine months ended September 30, 2008, the Company realized a swap termination loss of $4.2 million, which is being amortized over the maturity of a new $45.0 million swap. The amortization is reflected in interest expense in the Company's consolidated statements of operations. In connection with the payoff of a fixed-rate commercial real estate loan during the three months ended September 30, 2008, the Company terminated a $12.7 million swap and realized a $574,000 swap termination loss, which is being amortized over the maturity of the terminated swap. The amortization is reflected in interest expense in the Company's consolidated statements of operations.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 17 – INTEREST RATE RISK AND DERIVATIVE INSTRUMENTS – (continued)

The following tables present the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet as of December 31, 2009 and on the consolidated statement of operations for the year ended December 31, 2009:

Fair Value of Derivative Instruments as of December 31, 2009
(in thousands)

	Notional Amount	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under SFAS 133			
Interest rate cap agreement	$ 14,841	Derivatives, at fair value	$ 45
Derivatives designated as hedging instruments under SFAS 133			
Interest rate swap contracts	$ 217,907	Derivatives, at fair value	$ (12,812)
		Accumulated other comprehensive loss	$ 12,812

The Effect of Derivative Instruments on the Statement of Operations for the Year Ended December 31, 2009
(in thousands)

	Notional Amount	Liability Derivatives Statement of Operations Location	Unrealized Loss (1)
Derivatives not designated as hedging instruments under SFAS 133			
Interest rate cap agreement	$ 14,841	Interest expense	$ 89

(1) Negative values indicate a decrease to the associated balance sheet or consolidated statement of operations line items.

NOTE 18 – STOCK INCENTIVE PLANS

Upon formation of the Company, the 2005 Stock Incentive Plan (the "2005 Plan") was adopted for the purpose of attracting and retaining executive officers, employees, directors and other persons and entities that provide services to the Company. The 2005 Plan authorizes the issuance of up to 1,533,333 shares of common stock in the form of options to purchase common stock, stock awards, performance shares and stock appreciation rights.

In July 2007, the Company's shareholders approved the 2007 Omnibus Equity Compensation Plan (the "2007 Plan"). The 2007 Plan authorizes the issuance of up to 2,000,000 shares of common stock in the form of options to purchase common stock, stock awards, performance shares and stock appreciation rights.

NOTE 19 – INCOME TAXES

The Company has made an election to be taxed, and believes it qualifies, as a REIT under Sections 856 through 860 of the Code. To maintain REIT status for federal income tax purposes, the Company is generally required to distribute at least 90% of its REIT taxable income to its shareholders as well as comply with certain other qualification requirements as defined under the Code. Accordingly, the Company is not subject to federal corporate income tax to extent that it distributes 100% of its REIT taxable income each year. Taxable income from non-REIT activities managed through Resource TRS, the Company's taxable REIT subsidiary, is subject to federal, state and local income taxes.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 19 – INCOME TAXES – (continued)

Resource TRS' income taxes are accounted for under the asset and liability method. Under this method, deferred income taxes are recognized for the temporary differences between the financial reporting basis and tax basis of Resource TRS' assets and liabilities.

The following table details the components of Resource TRS' income taxes (in thousands):

	Years Ended December 31,		
	2009	2008	2007
(Benefit) provision for income taxes:			
Current:			
Federal	$(325)	$(331)	$354
State	–	(25)	119
Deferred	323	115	(135)
Income tax (benefit) provision	$(2)	$(241)	$338

The components of Resource TRS' deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2009	2008
Deferred tax assets related to:		
Foreign, state and local loss carryforwards	$ 703	$ 303
Provision for loan and lease losses	521	206
Total deferred tax assets	1,224	509
Valuation allowance	(1,224)	–
Total deferred tax assets	$ –	$ 509
Deferred tax liabilities related to:		
Property and equipment basis differences	$ –	$ (186)
Total deferred tax liabilities	$ –	$ (186)

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

Effective January 1, 2007, the Company adopted the provisions of FASB's guidance for uncertain tax positions. This implementation did not have an impact on the Company's balance sheet or results of operations. The guidance prescribes that a tax position should only be recognized if it is more likely than not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The

Company is required to disclose its accounting policy for classifying interest and penalties, the amount of interest and penalties charged to expense each period as well as the cumulative amounts recorded in the consolidated balance sheets. The Company will continue to classify any tax penalties as other operating expenses and any interest as interest expense. The Company does not have any unrecognized tax benefits that would affect the Company's financial position.

As of December 31, 2009, income tax returns for the calendar years 2006 - 2009 remain subject to examination by Internal Revenue Service ("IRS") and/or any state or local taxing jurisdiction. The Company has not executed any agreements with the IRS or any state and/or local taxing jurisdiction to extend a statue of limitations in relation to any previous year.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 20 – QUARTERLY RESULTS

The following is a presentation of the quarterly results of operations for the years ended December 31, 2009 and 2008:

	March 31 (unaudited)	June 30 (unaudited)	September 30 (unaudited)	December 31 (unaudited)
	(in thousands, except per share data)			
Year ended December 31, 2009				
Interest income	$26,622	$25,274	$22,501	$23,196
Interest expense	13,877	12,748	9,203	9,599
Net interest income	$12,745	$12,526	$13,298	$13,597
Net income (loss)	$(12,152)	$(5,127)	$11,528	$12,090
Net income (loss) per share – basic	$(0.50)	$(0.21)	$0.48	$0.43
Net income (loss) per share – diluted	$(0.50)	$(0.21)	$0.47	$0.43
Year ended December 31, 2008				
Interest income	$36,983	$32,258	$32,312	$32,788
Interest expense	23,148	18,924	18,664	18,883
Net interest income	$13,835	$13,334	$13,648	$13,905
Net income (loss)	$9,363	$(5,257)	$88	$(7,268)
Net income (loss) per share – basic	$0.38	$(0.21)	$0.00	$(0.29)
Net income (loss) per share – diluted	$0.38	$(0.21)	$0.00	$(0.29)

NOTE 21 – SUBSEQUENT EVENTS

On March 5, 2010, the Company entered into a Promissory Note with LEASE Equity Appreciation Fund II LP ("LEAF II"), that allows for an $8.0 million facility, of which $3.0 million was funded on March 5, 2010, for a one year term at 12% payable quarterly, with a 1% loan fee and 20% amortization, which is secured by the all encumbered assets of LEAF II and to be fully repaid by March 3, 2011.

The Company received $10.5 million in proceeds related to the issuance of 1,986,554 shares of common stock under the Company's dividend reinvestment plan during January 2010 and February 2010.

On January 15, 2010, the Company loaned $2.0 million to Resource Capital Partners, Inc. so that it could acquire a 5.0% limited partnership interest in Resource Real Estate Opportunity Fund, L.P. The loan is secured by Resource Capital Partner's partnership interest in the Resource Real Estate Opportunity Fund, L.P. The promissory note bears interest at a fixed rate of 8.0% per annum on the unpaid principal balance. In the event of default, interest will accrue and be payable at a rate of 5.0% in excess of the fixed rate. Interest payments are due quarterly commencing on April 15, 2010. Mandatory principal payments must also be made to the extent distributable cash or other proceeds from the partnership represents a return of Resource Capital Partners, Inc.'s capital. The term of the loan ends on January 14, 2015, with an option to extend for two additional 12-month periods each.

In January and February 2010, the Company bought back at total of $20.3 million of debt issued by RREF CDO 2006-1 and RREF CDO 2007-1.

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ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls

We are responsible for establishing and maintaining effective disclosure controls. Disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934, or Exchange Act, reports is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our Chief Executive Officer and Chief Financial Officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework Based on this assessment management believes that, as of December 31, 2009, our internal control over financial reporting is effective.

Our independent registered public accounting firm, Grant Thornton LLP, audited our internal control over financial reporting as of December 31, 2009. Their report dated March 15, 2010, expressed an unqualified opinion on our internal control over financial reporting. This report is included in this Item 9A.

Changes in Controls Over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the three month period ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Resource Capital Corp.

We have audited Resource Capital Corp. and its subsidiaries' (a Maryland Corporation) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Resource Capital Corp. and its subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Resource Capital Corp. and its subsidiaries' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Resource Capital Corp. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Resource Capital Corp. and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated March 15, 2010 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
March 15, 2010

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

All members of the board of directors are elected for a term of one year or until their successors are elected and qualified. Information is set forth below regarding the principal occupation of each of our directors. There are no family relationships among the directors and executive officers except that Jonathan Z. Cohen, our Chief Executive Officer, President and a director, is a son of Edward E. Cohen, a director and, until November 2009, our Chairman of the Board.

Names of Directors, Principal Occupation and Other Information

Walter T. Beach, age 43, 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 publicly-traded (NASDAQ: TBBK) bank holding company, and its subsidiary bank, The Bancorp Bank, since 1999. Mr. Beach has also served as a director of Cohen & Company, a publicly-traded (AMEX: COHN) investment firm specializing in credit related fixed income products and investments, since December 2009.

Edward E. Cohen, age 71, has been a director since March 2005 and was our chairman from March 2005 to November 2009. Mr. Cohen is Chairman of Resource America, the corporate parent of our manager, 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 and Chief Executive Officer of Atlas Energy, Inc. (f/k/a/ Atlas America, Inc.), a publicly-traded (NASDAQ: ATLS) energy company, a position he has held since 2000; Chairman of Atlas Pipeline Holdings GP, LLC, a wholly-owned subsidiary of Atlas Energy that is the general partner of Atlas Pipeline Holdings, L.P., a publicly-traded (NYSE: AHD) holding company, a position he has held since 2006; and Chairman of the Managing Board of Atlas Pipeline Partners GP, LLC, a wholly-owned subsidiary of Atlas Energy that is the general partner of Atlas Pipeline Partners, L.P., a publicly-traded (NYSE: APL) natural gas pipeline company, since its formation in 1999. He is also 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).

Jonathan Z. Cohen, age 39, has been our Chief Executive Officer, 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, Vice Chairman of Atlas Energy since 2000 and Vice Chairman of Atlas Pipeline Holdings GP since 2006. He was the Vice Chairman of RAIT Investment Trust, (now RAIT Financial Trust) a publicly-traded (NYSE: RAS) REIT, from 2003 to 2006, and Secretary, trustee and a member of RAIT's investment committee from

1997 to 2006.

William B. Hart, age 66, 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-traded (NYSE: WLP) health insurance company, from 2000 to 2004. Mr. Hart was Director of SIS Bancorp 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 Dunfey 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.

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Gary Ickowicz, age 54, has been a director since February 2007. Mr. Ickowicz has been a Principal of Lazard Freres Real Estate Investors, a manager of funds invested in debt and equity securities of North American real estate assets and enterprises, since 2001. In addition, he was a director of Lazard Freres's real estate investment banking unit from 1989 through 2001. Since 2000 he has been a director of Grant Street Settlement, and since 2002 he has been a director of NCC/Neumann, both not-for-profit developers of senior housing. Since 2001 he has been a director of Commonwealth Atlantic Properties, Inc., a privately-held REIT. From 2001 to 2006 he was a director of Kimsouth, Inc., a joint venture with Kimco Realty Corporation, a publicly-traded (NYSE: KIM) REIT.

Steven J. Kessler, age 67, has been our chairman since November 2009 and was our Senior Vice President - Finance from September 2005 to November 2009 and, before that, served as our Chief Financial Officer, Chief Accounting Officer and Treasurer from March 2005 to September 2005. Mr. Kessler has been Executive Vice President of Resource America since 2005 and was Chief Financial Officer from 1997 to December 2009 and Senior Vice President from 1997 to 2005. He was a Trustee of GMH Communities Trust, a previously publicly traded (NYSE: GCT) specialty housing REIT, from 2004 to 2008 when GCT was sold. He was Vice President - Finance and Acquisitions at Kravco Company, a then national shopping center developer and operator, from 1994 to 1997. 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.

Murray S. Levin, age 67, 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, age 58, has been a director since March 2005. Mr. Neff is a founder of Quaker BioVentures, Inc., a life sciences venture fund, and has been a 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 then-publicly-traded (NASDAQ: NTEC) life sciences company. Mr. Neff was also a director of The Bancorp, Inc. (NASDAQ: TBBK) from its formation in 1999 until 2002. Mr. Neff is on the boards of directors of five privately held Quaker BioVentures portfolio companies. He is a member of the board of directors of the National Venture Capital Association.

The board of directors has not adopted specific minimum qualifications for service on our board, but rather seeks a mixture of skills that are relevant to our business as an externally-managed REIT that focuses primarily upon investments in commercial real estate and commercial finance assets, principally loans and interests in loans. The following presents a brief summary of the attributes of each director that led to the conclusion that he should serve as such:

Mr. Beach has extensive experience in finance and investment management and a strong financial background.

Mr. E. Cohen has lengthy experience in real estate and real estate finance (a principal business of Resource America), corporate finance (through the formation and funding of public companies such as Atlas Energy, Atlas America, Atlas Pipeline, and Resource America, and his banking experience) and operations of both public and private companies, and is affiliated with the Manager.

Mr. J. Cohen has significant real estate, real estate finance and operational experience as an officer (currently Chief Executive Officer and President) and director of Resource America, and is affiliated with the Manager.

Mr. Hart has extensive experience in finance, investment management and real estate, both as an officer and director of banks and insurance companies, as well as an officer of a private investment firm.

Mr. Ickowicz has broad real estate and real estate finance experience as a principal in the real estate operations of an international investment bank, as a director of a REIT and as a director three real estate ventures.

Mr. Kessler has a significant financial and accounting background in real estate as the former Chief Financial Officer of Resource America and, previously, as a principal financial officer for a major operator of commercial real estate.

Mr. Levin has a lengthy and diverse legal background and has practiced complex litigation for over forty years.

Mr. Neff has significant experience in investments, operations and finance as a principal or officer of a venture fund, a public company and, prior thereto, as an investment banker.

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Non-Director Executive Officers

Jeffrey D. Blomstrom, age 41, has been our Senior Vice President-CDO structuring since March 2005. Mr. Blomstrom has been President and Managing Director of Resource Financial Fund Management, Inc., an asset management subsidiary of Resource America, since 2003. Mr. Blomstrom serves as the head of collateral origination and as a member of the credit committee for Trapeza Capital, Resource America's trust preferred security collateral manager. From 2001 to 2003 Mr. Blomstrom was a Managing Director at Cohen and Company, an 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.

David E. Bloom, age 45, 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, Inc., a wholly-owned real estate subsidiary of Resource America, since 2004 and President of Resource Capital Partners, a subsidiary of Resource Real Estate, from 2002 to 2006. From 2001 to 2002 he was President of Resource Properties, a former real estate subsidiary of Resource America. 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 Sonnenblick-Goldman Company, a real estate investment bank. From 1995 to 1998 he was an attorney at the law firm of Willkie Farr & Gallagher, LLP.

Jeffrey F. Brotman, 46, Executive Vice President since June 2009. Executive Vice President of Resource America since June 2007. Co-founder of Ledgewood, P.C. (a Philadelphia-based law firm) and affiliated with the firm from 1992 until June 2007, serving as managing partner from 1995 until March 2006. Mr. Brotman is also a non-active certified public accountant and an Adjunct Professor at the University of Pennsylvania Law School. Mr. Brotman was Chairman of the Board of Directors of TRM Corporation (a publicly-traded consumer services company) from September 2006 until September 2008 and was its President and Chief Executive Officer from March 2006 through June 2007.

David J. Bryant, age 52, has been our Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer since June 2006. From 2005 to 2006 Mr. Bryant served as Senior Vice-President, Real Estate Services, at Pennsylvania Real Estate Investment Trust, a publicly-traded (NYSE: PEI) REIT principally engaged in owning, managing, developing and leasing malls and strip centers in the eastern United States. From 2000 to 2005, Mr. Bryant served as PEI's Senior Vice President - Finance and Treasurer, and was its principal accounting officer.

Other Significant Employees

The following sets forth certain information regarding other significant employees of the Manager and Resource America who provide services to us:

Christopher D. Allen, age 40, has been our Senior Vice President-Commercial Lending since March 2005. Mr. Allen has been a Managing Director of Resource Financial Fund Management since 2003. At Resource Financial Fund Management, Mr. Allen is in charge of identifying, implementing and overseeing new leveraged loan and CDO products. He is a member of the investment committee of Apidos Capital Management, LLC, a wholly-owned asset management subsidiary of Resource America, where he serves as the Chief Operating Officer. Before joining Resource Financial Fund Management, 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, age 47, has been our Senior Vice President-Bank Loans since March 2005. Ms. Bergstresser has been the President and Senior Portfolio Manager of Apidos Capital Management since 2005. Before joining Apidos Capital Management, from 2003 to 2005 she was the Managing Director and Portfolio Manager of MJX Asset Management, a multi-billion dollar 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.

Crit DeMent, age 57, has been our Senior Vice President-Equipment Leasing since March 2005. Mr. DeMent has been Chairman and Chief Executive Officer of LEAF Financial Corporation, a majority-owned commercial finance subsidiary of Resource America, 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., then the equipment leasing subsidiary of Resource America, 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.

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Thomas C. Elliott, age 36, has been our Senior Vice President-Finance and Operations since September 2006 and, prior to that, was our Chief Financial Officer, Chief Accounting Officer and Treasurer from September 2005 to June 2006. He was our Senior Vice President - Assets and Liabilities Management from June 2005 until September 2005 and, before that, served as our Vice President - Finance from March 2005. Mr. Elliott has been Chief Financial Officer of Resource America since December 2009 and Senior Vice President since 2005. He was Senior Vice President - Finance and Operations of Resource America from 2006 to December 2009; Senior Vice President – Finance from 2005 to 2006 and Vice President - Finance from 2001 to 2005. From 1997 to 2001 Mr. Elliott was a Vice President at Fidelity Leasing, 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.

Alan F. Feldman, age 46, has been our Senior Vice President-Real Estate Investments since March 2005. Mr. Feldman has been Chief Executive Officer of Resource Real Estate since 2004 and Senior Vice President of Resource America since 2002. Mr. Feldman was President of Resource Properties from 2002 to 2005. 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 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, age 38, has been our Vice President-Real Estate Investments since January 2006. He has also been employed by Resource Capital Partners since 2002, having been its Vice President and Director of Acquisitions from 2003 to 2006 and President since 2006. Mr. Finkel has also been an officer of Resource Real Estate since 2004, and is currently its Executive Vice President and Director of Acquisitions. In 2000, Mr. Finkel was an investment banking Associate at Lehman Brothers. From 1998 to 1999, Mr. Finkel was an Associate at 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.

Kyle Geoghegan, age 41, has been our Senior Vice President – Loan Originations since 2007. Mr. Geoghegan has been a Managing Director of Resource Real Estate Funding, Inc., a real estate subsidiary of Resource America, since July 2006. Mr. Geoghegan co-manages the whole loan origination platform for Resource Real Estate Funding and is based in Los Angeles. Mr. Geoghegan worked at Bear Stearns from January 1998 to May 2006, serving as a Managing Director who co-managed the Bear Stearns Commercial Mortgage office in Los Angeles which originated over $1.0 billion of loans annually. Prior to joining Bear Stearns, Mr. Geoghegan spent four years as a real estate loan officer at PNC Bank in Philadelphia, PA, primarily originating construction and bridge loans.

Yvana Melini, age 34, has been our Vice President and Director of Asset Management since 2008. Ms. Melini has served as Vice President of Debt Asset Management for Resource Real Estate since 2006. Prior to joining Resource Real Estate, Ms. Melini served for over six years as a Vice President of both the Structured Asset Management and CMBS Credit Administration groups for Capmark Finance, Inc. (formerly GMAC Commercial Mortgage Corporation). Prior to her employment with Capmark, Ms. Melini served as Senior Underwriter for the Northeast Commercial Real Estate Lending division of Washington Mutual Bank. Ms. Melini has also privately consulted on various due diligence projects for large institutional investors and B-Piece buyers within the CMBS marketplace.

Darryl Myrose, age 36, has been our Senior Vice President – Loan Originations since 2007. Mr. Myrose has been a Managing Director of Resource Real Estate Funding since July 2006. Mr. Myrose co-manages the whole loan origination platform for Resource Real Estate Funding and is based in Los Angeles. Mr. Myrose worked at Bear Stearns from April 1996 to May 2006, serving as a Managing Director who co-managed the Bear Stearns Commercial

Mortgage office in Los Angeles which originated over $1.0 billion of loans annually. Prior to joining Bear Stearns, Mr. Myrose was employed with Clarion Advisors (formerly Jones Lang Wootton Realty Advisors) where he was an asset management analyst.

Thomas C. Powers, age 45, has been our Vice President – Loan Originations since 2007. Mr. Powers has been Senior Vice President of Resource Real Estate Funding since January 2008 and was Vice President from 2006 to 2008. Mr. Powers is responsible for all real estate asset management including investment origination and all aspects of transaction management. Mr. Powers has over 20 years of commercial real estate, workout and risk management experience. Prior to joining Resource Real Estate Funding, Mr. Powers was a senior member of the real estate credit risk management and workout group at Merrill Lynch. Prior to his employment with Merrill Lynch, Mr. Powers worked in the project finance group at UBS Investment Bank.

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Joan M. Sapinsley, age 57, has been our Senior Vice President – CMBS since 2007. Ms. Sapinsley joined Resource Financial Fund Management, Inc. in February 2007 as Managing Director and manages our CMBS portfolio. Prior to joining Resource Financial Fund Management, Ms. Sapinsley was a Managing Director at TIAA, where she worked from 1992 through 2006 purchasing CMBS. She was responsible for all single borrower and single asset CMBS, as well as subordinate CMBS and B-notes. She also directed TIAA's conduit origination and securitization activities. Before TIAA, Ms. Sapinsley was a Director in the Financial Services Group of Cushman & Wakefield and a real estate consultant at Laventhol & Horwath.

Michael S. Yecies, age 42, has been our Chief Legal Officer and Secretary since March 2005 and our Senior Vice President since July 2007. Mr. Yecies has been Senior Vice President of Resource America since 2005, Chief Legal Officer and Secretary since 1998 and was Vice President from 1998 to 2005. From 1994 to 1998 he was an attorney at the law firm of Duane Morris LLP.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers, directors and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish us with copies of all such reports.

Based solely on our review of the reports received by us, we believe that, during fiscal 2009, our officers, directors and greater than ten percent shareholders complied with all applicable filings requirements, except Mr. Bloom inadvertently filed two late Form 4s relating to restricted stock grants.

Code of Ethics

We have adopted a code of business conduct and ethics applicable to all directors, officers and employees. Our code of conduct is available on our website: www.resourcecapitalcorp.com. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of conduct by posting such information on our website, unless otherwise required by applicable law or regulation.

Information Concerning the Audit Committee

Our Board of Directors has a standing audit committee. The audit committee reviews the scope and effectiveness of audits by the independent accountants, is responsible for the engagement of independent accountants, and reviews the adequacy of our internal financial controls. Members of the committee are Messrs. Neff (Chairman), Beach and Hart. The board of directors has determined that each member of the audit committee meets the independence standards for audit committee members set forth in the listing standards of the New York Stock Exchange, or NYSE, including those set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, and that Messrs. Beach and Neff each qualifies as an "audit committee financial expert" as that term is defined in the rules and regulations thereunder.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We are required to provide information regarding the compensation program in place for our CEO, CFO and the three other most highly-compensated executive officers. In the following discussion, we refer to our CEO, CFO and the other most highly-compensated executive officer whose compensation in fiscal 2009 exceeded $100,000 as our "Named Executive Officers" or "NEOs."

Objectives of Our Compensation Program

We have no employees. We are managed by our Manager pursuant to a management agreement, between our Manager and us. All of our NEOs are employees of our Manager or one of its affiliates. We have not paid, and do not intend to pay, any cash compensation to our NEOs although we reimburse the Manager for the wages, salary and benefits established and paid by the Manager to our Chief Financial Officer. However, our Compensation Committee may, from time to time, grant equity awards in the form of restricted stock, stock options or performance awards to our NEOs pursuant to our 2005 Stock Incentive Plan and/or the 2007 Omnibus Equity Compensation Plan. These awards are designed to align the interests of our NEOs with those of our stockholders, by allowing our NEOs to share in the creation of value for our stockholders through stock appreciation and dividends. These equity awards are generally subject to time-based vesting requirements designed to promote the retention of management and to achieve strong performance for our company. These awards further provide us flexibility in our ability to enable our Manager to attract, motivate and retain talented individuals at our Manager.

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Setting Executive Compensation

Our NEOs are employees of Resource America, which determines the base salary, cash incentive compensation and, for grants of Resource America equity securities, equity incentive compensation that is paid to our NEOs. A portion of the base salary and cash incentive compensation paid to them is derived from the fees paid by us under the management agreement. We do not control how such fees are allocated by Resource America to its employees. For a description of our management agreement, see Item 1: "Business-Management Agreement." We disclose the cash amounts paid by Resource America to our Chief Financial Officer (for which we reimburse Resource America), our only NEO who devotes his full business time to our affairs, in the Summary Compensation Table below.

When Resource America makes its determination of the amount of compensation it will award to one of our NEOs, including in particular the amount of Resource America securities that Resource America will grant as equity incentive compensation, Resource America also considers, but does not determine, the amount of our securities we propose to grant as equity incentive compensation to that NEO. Similarly, in determining the amount of equity incentive compensation we grant to one of our NEOs, our compensation committee considers, but does not determine, the compensation that Resource America proposes to grant to that NEO, including Resource America's grant of Resource America securities as equity incentive compensation. Our respective compensation committees base their analyses and determinations upon recommendations submitted by Jonathan Z. Cohen, who is chief executive officer of both companies, for all of our NEOs other than himself. Resource America's compensation committee determines the amount of compensation Resource America will award Mr. J. Cohen, while our compensation committee determines the amount of any Resource Capital equity incentive compensation we award to Mr. J. Cohen. These analyses and determinations are not based upon any particular compensation matrix or formula, but instead are based upon qualitative evaluations by Mr. J. Cohen and the compensation committees. Our compensation committee does not make recommendations to Resource America as to the amount of compensation Resource America grants to our NEOs, nor does Resource America's compensation committee make recommendations to us regarding the amount of equity incentive compensation awarded by us to our NEOs.

Our compensation committee operates under a written charter adopted by our Board of Directors, a copy of which is available on our website at www.resourcecapitalcorp.com. Our compensation committee determines compensation amounts after the end of Resource America's fiscal year and makes equity awards after our fiscal year end. Therefore, awards made after our fiscal year end are not reflected in our Summary Compensation Table or Grants of Plan-Based Awards table until our following fiscal year. Our compensation committee has the discretion to issue equity awards at other times during our fiscal year.

Elements of Our Compensation Program

As described above, our NEOs do not receive cash compensation from us, although beginning in October 2009, we agreed to reimburse Resource America for the wages, salary and benefits of our Chief Financial Officer. However, our compensation committee may, from time to time, grant equity awards in the form of restricted stock, stock options or performance awards to our NEOs pursuant to our 2005 Stock Incentive Plan and/or the 2007 Omnibus Equity Compensation Plan as follows:

Stock Options. Stock options provide value to the executive only if our stock price increases after the grants are made. Stock options typically vest 33.3% per year.

Restricted Stock. Restricted stock units reward stockholder value creation slightly differently than stock options: restricted stock units are impacted by all stock price changes, both increases and decreases. Restricted stock units generally vest 33.3% per year and include a right to receive dividends on unvested shares.

Resource America Restricted Stock. As described above, Resource America's compensation committee approves awards of Resource America restricted stock to NEOs. These awards generally vest 25% per year, and may include a right to receive dividends on unvested shares.

Resource America Stock Options. As described above, Resource America's compensation committee approves awards of Resource America options to receive restricted stock to NEOs. These awards generally vest 25% per year.

Supplemental Incentive Arrangements with David Bloom. In October 2007, we entered into an agreement with David Bloom, our Senior Vice President–Real Estate Investments, which awarded him 50,000 shares of our restricted stock under our 2005 Stock Incentive Plan. These shares vested were fully vested at December 31, 2009.

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In December 2007, Resource America entered into another agreement with Mr. Bloom which provides for awards to him of our restricted stock and Resource America restricted stock. With respect to our restricted stock, Mr. Bloom was awarded 120,000 shares, 60,000 of which are subject to vesting over time and 60,000 of which are earned based on the achievement of predetermined, objective performance goals over a multi-year performance period. We pay dividends on unvested awards. With respect to the shares that vest over time, 15% vested on June 30, 2008, 15% vested on June 30, 2009 and 70% vest on December 31, 2010, provided that Mr. Bloom is employed by Resource America at that date. The award opportunities, presented in number of potential shares earned, are included in the Grant of Plan-Based Awards table below. Performance-based shares are earned on achievement of performance goals over the performance period beginning July 1, 2007 and ending June 30, 2010, with one-third of the shares potentially being earned at the end of each 12-month measurement period. As of December 31, 2009, one-third of such shares were earned, one-third of such shares were forfeited and one-third of such shares remain available to be earned. The performance measures are as follows:

- Loan Origination. For each measurement period, the loan origination volume generated by Mr. Bloom and his colleagues in Resource America's Los Angeles office, which we refer to as Mr. Bloom's team, must be equal to or greater than 90% of the loan origination volume generated by Mr. Bloom's team for the previous 12-month period. Resource America may waive the loan origination performance criteria, if in its reasonable discretion, reaching such levels could not be reasonably achieved notwithstanding Mr. Bloom's team's best efforts. Our compensation committee along with Resource America's compensation committee determine whether to exercise this discretion.

- Portfolio Diversity. The loans generated by Mr. Bloom's team during the measurement period must conform to the diversity and loan type standards set forth in the investment parameters of the commercial real estate CDOs managed on our behalf.

- Pricing. The gross weighted average spread on loans generated by Mr. Bloom's team during the measurement period must be not less than 250 basis points over the applicable index. Resource America may exclude certain loans from this calculation and/or may waive the pricing provision for the measurement period in its entirety.

- Credit Quality. There shall have been no principal losses during the measurement period on any loan originated by Mr. Bloom's team and no greater than 10% of the loans originated by Mr. Bloom's team (measured by principal balance) shall have been in default during such measurement period.

If the performance criteria for a given measurement period are largely, but not entirely, met, the compensation committee will reasonably take such substantial performance into account in determining whether there should be an equitable partial earning of the award for such measurement period. Once earned, the shares of restricted stock vest over the following two years, at the rate of one-eighth (1/8) per quarter, as long as Mr. Bloom is employed by Resource America on the last day of such quarter. The performance-based stock awards are disclosed under the Grants of Plan-Based Awards table under the heading "Estimated future payouts under equity incentive plan awards" and in the Outstanding Equity Awards at Fiscal Year-End table under the heading "Equity incentive plan awards."

How We Determined 2009 Compensation

In light of the general adverse economic conditions in the market, and the effects of the market on our performance, the compensation committee decided to significantly reduce the value of the bonus awards to our NEOs. However, the Committee recognized our NEOs' prudent management efforts in a challenging environment, and believed that, for Mr. Bryant and Mr. Bloom, restricted stock awards were appropriate to recognize those efforts and retain their services.

Upon our CEO's recommendation, our Compensation Committee made the following awards for fiscal 2009:

- Mr. Bryant was awarded 23,364 shares of restricted stock for fiscal 2009, as compared to 13,484 shares of restricted stock for fiscal 2008. Mr. Bryant was also awarded 5,000 Resource America options for fiscal 2008.

- Mr. Bloom was awarded 44,502 shares of restricted stock for fiscal 2009, as compared to 18,878 shares of restricted stock for fiscal 2008. See "– Elements of Our Compensation Program–Supplemental Incentive Arrangements with David Bloom."

Report of the Compensation Committee

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis with management and based on its review and discussions, the compensation committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this filing.

This report has been provided by the compensation committee of the Board of Directors of Resource Capital Corp.

Murray S. Levin
P. Sherrill Neff
Walter T. Beach

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The following table sets forth certain information concerning the compensation earned in fiscal 2009, 2008 and 2007 for our NEOs:

SUMMARY COMPENSATION

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)(2)	All Other Compen-sation ($)(3)	Total ($)
Jonathan Z. Cohen	2009	–	–	–	–	–	–
Chief Executive Officer,	2008	–	–	–	–	–	–
President and Director	2007	–	–	1,499,989	–	–	1,499,989
David J. Bryant	2009	240,000(1)	120,000 (1)	49,999	–	–	409,999
Senior Vice President,	2008	240,000(1)	185,000 (1)	124,997	–	15,425	565,422
Chief Financial Officer, Chief Accounting Officer and Treasurer	2007	240,000(1)	120,000 (1)	71,989	–	47,978	479,967
David E. Bloom	2009	–	–	151,777	–	–	151,777
Senior Vice President–	2008	–	–	174,999	–	–	174,999
Real Estate Investments	2007	–	–	1,385,597	–	–	1,385,597

(1) Mr. Bryant's salary and bonus were paid by Resource America. We began to reimburse Resource America for Mr. Bryant's salary and bonus in October 2009. Amounts represent salary and bonus earned for the years indicated, but may not have been paid in full in the respective years.

(2) Grant date fair value, valued in accordance with FASB Accounting Standards Codification Topic 718 as the closing price of our common stock on the grant date. In valuing options awarded to Messrs. J. Cohen, Bryant, and Bloom at $0.04 per option, we used the Black-Scholes option pricing model to estimate the weighted average fair value of each option granted with weighted average assumptions for (a) expected dividend yield of 27.3%, (b) risk-free interest rate of 3.3%, (c) expected volatility of 51.0%, and (d) an expected life of 7.0 years.

(3) 2008 amount represents award of options to purchase Resource America restricted common stock. The grant date fair value is $3.09 per option, using the Black-Scholes option pricing model to estimate the fair value of each option granted with assumptions for (a) expected dividend yield of 3.4%, (b) risk-free interest rate of 3.8%, (c) expected volatility of 49.5%, and (d) an expected life of 6.3 years. 2007 represents award of Resource America restricted stock earned during 2007, valued at the closing price of Resource America common stock on the date of the grant in January 2007.

GRANTS OF PLAN-BASED AWARDS TABLE

During 2009, we made restricted stock awards to our NEOs. The following table sets forth information with respect to each of these awards on a grant-by-grant basis.

Name	Grant date	All other stock awards: number of shares of stock (#)	All other option awards: number of securities underlying options (#)	Exercise or base price of option awards ($/Sh)	Grant date fair value of stock and option awards ($) (1)
David J. Bryant					
Our restricted stock	02/20/09	23,364			49,999
David E. Bloom					
Our restricted stock	02/03/09	20,000			67,000
Our restricted stock	07/30/09	24,502			84,777

(1) Based on the closing price of our stock on the respective grant dates.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)
Jonathan Z. Cohen	100,000	–	–	15.00	03/07/15	7,265	35,744	–	–
David J. Bryant	10,000	–	–	15.00	03/07/15	32,707	160,918	–	–
	–	5,000 (3)		8.14	05/21/18	580 (4)	2,343 (4)	–	–
David E. Bloom	100,000	–	–	15.00	03/07/15	85,060	418,495	20,000 (2)	98,400

(1) Based on the closing price of our common stock $4.92 on December 31, 2009.

(2) Represents performance-based restricted stock awards under our 2007 Omnibus Equity Compensation Plan that vest based on the achievement of pre-determined objective performance goals over a multi-year performance period. See "Compensation Discussion and Analysis."

(3) Represents options to purchase shares of Resource America common stock that vest ¼ on each anniversary date through May 21, 2012.

(4) Represents shares of Resource America common stock. Based upon a price of $4.04, the price of Resource America's common stock on December 31, 2009.

2009 OPTION EXERCISES AND STOCK VESTED

Name	Stock Awards

	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) (1)
Jonathan Z. Cohen	40,163	150,581
David J. Bryant (our stock)	5,886	18,730
(Resource America stock)	460	1,987
David E. Bloom	56,945	214,831

(1) Represents market value of our common stock on vesting date.

Director Compensation

For 2009, the board of directors approved compensation for each independent director consisting of an annual cash retainer of $52,500 and an annual stock award valued at $22,500 on the date of grant on the anniversary of the date each of them became a director. The following table sets forth director compensation for 2009:

Name (1)	Fees Earned or Paid in Cash ($)	Stock Awards ($) (2)	Total ($)
Walter T. Beach	52,500	22,499	74,999
William B. Hart	52,500	22,499	74,999
Murray S. Levin	52,500	22,499	74,999
P Sherrill Neff	52,500	22,499	74,999
Gary Ickowicz	52,500	22,499	74,999
Edward E. Cohen	–	–	–
Steven J. Kessler	–	–	–

(1) Table excludes Mr. J. Cohen, an NEO, whose compensation is set forth in the Summary Compensation Table.

(2) On March 9, 2009, Messrs. Beach, Hart, Levin and Neff, were each granted 11,479 shares based upon a price of $1.96, the closing price on that day. On February 1, 2009, Mr. Ickowicz, was granted 6,716 shares based upon a price of $3.35, the closing price on that day.

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Compensation Committee Interlocks and Insider Participation

The compensation committee of the board during 2009 consisted of Messrs. Beach, Levin and Neff. None of such persons was an officer or employee, or former officer or employee, of our company or any of its subsidiaries during 2009. None of our executive officers was a director or executive officer of any entity of which any member of the compensation committee was a director or executive officer during 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The following table sets forth the number and percentage of shares of common stock owned, as of March 8, 2010, by (a) each person who, to our knowledge, is the beneficial owner of more than 5% of the outstanding shares of common stock, (b) each of our present directors, (c) each of our executive officers and (d) all of our named executive officers and directors as a group. This information is reported in accordance with the beneficial ownership rules of the Securities and Exchange Commission under which a person is deemed to be the beneficial owner of a security if that person has or shares voting power or investment power with respect to such security or has the right to acquire such ownership within 60 days. Shares of common stock issuable pursuant to options or warrants are deemed to be outstanding for purposes of computing the percentage of the person or group holding such options or warrants but are not deemed to be outstanding for purposes of computing the percentage of any other person.

	Shares owned	Percentage(1)	
Executive officers and directors: (2)			
Walter T. Beach (4) (5)	1,058,911	2.72	%
Edward E. Cohen (3)	474,120	1.22	%
Jonathan Z. Cohen (3)	694,659	1.78	%
William B. Hart (5)	31,396	*	
Gary Ickowicz (5)	13,876	*	
Steven J. Kessler (3)	73,069	*	
Murray S. Levin (5)	25,396	*	
P. Sherrill Neff (5)	31,396	*	
Jeffrey D. Blomstrom (3)	36,276	*	
David E. Bloom (3)	247,364	*	
Jeffrey F. Brotman (3)	19,267	*	
David J. Bryant (3)	76,798	*	
All executive officers and directors as a group (12 persons)	2,782,528	7.10	%
Owners of 5% or more of outstanding shares:			
Resource America, Inc. (6)	2,192,009	5.63	%

* Less than 1%.

(1) Includes 255,000 shares of common stock issuable upon exercise of stock options.

(2)

The address for all of our executive officers and directors is c/o Resource Capital Corp., 712 Fifth Avenue, 10th Floor, New York, New York 10019.

(3) Includes restricted stock awards granted to certain officers and directors as follows: (i) on December 26, 2007: 60,000 shares to Mr. Bloom; 15% of these shares vested on each of June 30, 2008 and June 30, 2009 and 70% will vest on December 31, 2010; (ii) on January 14, 2008: Mr. Blomstrom – 10,787 shares; Mr. Bloom – 18,878 shares; Mr. Bryant – 13,484 shares; Mr. E. Cohen – 10,787 shares; and Mr. Kessler – 5,393 shares; all these shares vest 33.33% per year; (iii) on July 30, 2009; Mr. Bloom – 24,502 shares; these shares vest in full on July 30, 2010; and (iv) on January 22, 2010; Mr. Blomstrom – 14,450 shares, Mr. Bloom – 19,267 shares; Mr. Brotman – 19,267 shares; Mr. Bryant – 19,267 shares; Mr. J. Cohen – 57,803 shares; and Mr. Kessler – 19,267 shares; all these shares vest 33.33% per year. Each such person has the right to receive distributions on and vote, but not to transfer, such shares.

(4) Includes (i) 1,037,515 shares purchased by Beach Asset Management, LLC, Beach Investment Counsel, Inc. and/or Beach Investment Management, LLC, investment management firms for which Mr. Beach is a principal and possesses investment and/or voting power over the shares. The address for these investment management firms is Five Tower Bridge, 300 Barr Harbor Drive, Suite 220, West Conshohocken, Pennsylvania 19428.

(5) Includes (i) 3,214 shares of restricted stock issued to each of Messrs. Beach, Hart, Levin and Neff on March 8, 2010 which vest on March 8, 2011, and (ii) 4,083 shares of restricted stock issued to Mr. Ickowicz on February 1, 2010 which vest on February 1, 2011. Each non-employee director has the right to receive distributions on and vote, but not to transfer, such shares.

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(6) Includes (i) 921 shares of restricted stock granted to the Manager in connection with our March 2005 private placement that the Manager has not allocated to its employees, (ii) 100,000 shares purchased by the Manager in our initial public offering, (iii) 900,000 shares purchased by Resource Capital Investor in our March 2005 private placement, (iv) 900,000 shares purchased by Resource Capital Investor in our initial public offering, and (v) 291,088 shares transferred to the Manager as incentive compensation pursuant to the terms of its management agreement with us. The address for Resource America, Inc. is 1845 Walnut Street, Suite 1000, Philadelphia, Pennsylvania 19103.

Equity Compensation Plan Information

The following table summarizes certain information about our 2005 Stock Incentive Plan and 2007 Omnibus Equity Compensation Plan as of December 31, 2009:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Equity compensation plans approved by security holders:			
Options	607,666	$ 14.99	
Restricted shares	437,319	N/A	
Total	1,044,985		1,473,345 (1) (2)

(1) Upon the July 2006 hiring of certain significant employees of the Manager, we agreed to pay up to 100,000 shares of restricted stock and 100,000 options to purchase restricted stock upon the achievement of certain performance thresholds, the first of which was met in June 2007 and, as a result, 60,000 shares of restricted stock and 60,000 options to purchase restricted stock were issued at that time. As of December 31, 2009, 40,000 shares of restricted stock and 40,000 options to purchase restricted stock are unissued. These shares and options to purchase restricted stock, which have been reserved for future issuance under the plans, have been deducted from the number of securities remaining available for future issuance. See Item 8, “Financial Statements and Supplementary Data” at Note 12 for a more detailed discussion.

(2) We agreed to award certain personnel up to 195,389 shares of restricted stock upon the achievement of certain performance thresholds. During the year ended December 31, 2009, 62,706 of those shares were forfeited. The remaining 132,683 shares, which have been reserved for future issuance under the plans, have been deducted from

the number of securities remaining available for future issuance.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Relationships and Related Transactions

We have entered into a management agreement under which the Manager receives substantial fees. We describe these fees in Item 1 – "Business – Management Agreement." For the year ended December 31, 2009, Resource Capital Manager, or the Manager, earned base management fees of approximately $3.8 million and incentive compensation fees of $4.6 million (including $1.2 million paid in the form of 217,149 shares of common stock). We also reimburse the Manager for financial services expense, rent and other expenses incurred in the performance of its duties under the management agreement. Pursuant to an amendment to the management agreement on October 16, 2009, the Manager must provide us with a Chief Financial Officer and three accounting professionals, each of whom will be exclusively dedicated to our operations. The Manager will also provide us with a director of investor relations who will be 50% dedicated to our operations. The amendment provides that we will bear 100% of the expense of the wages, salaries and benefits of the Chief Financial Officer and three accounting professionals and 50% of the salary and benefits of the director of investor relations. For the year ended December 31, 2009, we paid aggregate reimbursements to the Manager of $664,000. In addition, we are required to reimburse the Manager and Resource America for expenses for employees of Resource America who perform legal, accounting, due diligence and other services that outside professionals or consultants would otherwise perform. No such expense reimbursements were made in the year ended December 31, 2009. As of December 31, 2009, we had executed six CDO transactions. These CDO transactions were structured for us by the Manager; however, the Manager was not separately compensated by us for executing these transactions and is not separately compensated by us for managing the CDO entities and their assets.

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Resource America, entities affiliated with it and our executive officers and directors collectively beneficially own 4,974,537 shares of common stock, representing approximately 13% of our common stock on a fully-diluted basis. Our executive officers are also officers of our Manager and/or of Resource America or its subsidiaries.

On May 14, 2009, we borrowed $4.5 million from Resource America. We repaid the promissory note the same day and paid Resource America a commitment fee of $180,000.

On December 1, 2009, we purchased a membership interest in VIP Borrower, LLC (an unconsolidated RRE VIE that holds our interests in a real estate joint venture) from Resource America at book value. This joint venture, which is structured as a credit facility with Varde Investment Partners, LP acting as lender, finances the acquisition of distressed properties and mortgage loans and has the objective of repositioning both the directly owned properties and the properties underlying the mortgage loans to enhance their value. We acquired the membership interests for $2.1 million. The agreement requires us to contribute 3% of the total funding required for each asset acquisition on a monthly basis. The investment balance of $2.1 million at December 31, 2009 is recorded as an investment in unconsolidated entities on our consolidated balance sheet.

LEAF Financial Corp. a majority-owned subsidiary of Resource America, originates and manages our equipment lease and note investments. We purchase these investments from LEAF Financial at a price equal to their book value plus a reimbursable origination cost not to exceed 1% to compensate LEAF Financial for its origination costs. In addition, we pay LEAF Financial an annual servicing fee, equal to 1% of the book value of managed assets, for servicing our equipment lease investments. During the year ended December 31, 2009, we paid LEAF Financial $505,000 in annual servicing fees.

On June 30, 2009, we sold our sole membership interest in one of our subsidiaries that held a pool of leases valued at $89.8 million and transferred the $82.3 million balance of the related secured term facility to Resource America. No gain or loss was recognized on the sale of this membership interest. We received a note of $7.5 million from Resource America for the equity in the portfolio on June 30, 2009. The promissory note bore interest at LIBOR plus 3%. On July 1, 2009, $4.5 million of the promissory note was repaid. The remaining outstanding principal balance of the note of $3.0 million was paid in full on August 3, 2009.

Until 1996, director Edward E. Cohen, a director who was our Chairman from our inception until November 2009, was of counsel to Ledgewood, P.C., a law firm. In addition, one of our executive officers, Jeffrey F. Brotman, was employed by Ledgewood until 2007. For the year ended December 31, 2009, we paid Ledgewood $660,000 for legal services. Mr. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood and its redemption of his interest in the firm. For the year ended December 31, 2009, those payments were $120,000. Mr. Brotman also receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood. For the year ended December 31, 2009, those payments were $40,000.

On March 5, 2010, we entered into a Promissory Note with LEASE Equity Appreciation Fund II LP (“LEAF II”), that allows for an $8.0 million facility, of which $3.0 million was funded on March 5, 2010, for a one year term at 12% payable quarterly, with a 1% loan fee and 20% amortization, which is secured by the all encumbered assets of LEAF II and to be fully repaid by March 3, 2011.

On January 15, 2010, we loaned $2.0 million to Resource Capital Partners, Inc. so that it could acquire a 5.0% limited partnership interest in Resource Real Estate Opportunity Fund, L.P. The loan is secured by Resource Capital Partner’s partnership interest in the Resource Real Estate Opportunity Fund, L.P. The promissory note bears interest at a fixed rate of 8.0% per annum on the unpaid principal balance. In the event of default, interest will accrue and be payable at a rate of 5.0% in excess of the fixed rate. Interest payments are due quarterly commencing on April 15, 2010.

Mandatory principal payments must also be made to the extent distributable cash or other proceeds from the partnership represents a return of Resource Capital Partners, Inc.'s capital. The term of the loan ends on January 14, 2015, with an option to extend for two additional 12-month periods each.

Policies and Procedures Regarding Related Transactions

Under our Management Agreement with the Manager and Resource America, we have established policies regarding the offer of potential investments to us, our acquisition of those investments and the allocation of those investments among other programs managed by the Manager or Resource America. We have also established policies regarding investing in investment opportunities in which the Manager or Resource America has an interest and regarding investing in any investment fund or CDO structured, co-structured or managed by the Manager or Resource America.

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Policies and Procedures Regarding Related Transactions

Under our Management Agreement with the Manager and Resource America, we have established policies regarding the offer of potential investments to us, our acquisition of those investments and the allocation of those investments among other programs managed by the Manager or Resource America. We have also established policies regarding investing in investment opportunities in which the Manager or Resource America has an interest and regarding investing in any investment fund or CDO structured, co-structured or managed by the Manager or Resource America.

The Manager and Resource America must offer us the right to consider all investments they identify that are within the parameters of our investment strategies and policies. For all potential investments other than in equipment leases and notes, if the Manager and Resource America identify an investment that is appropriate both for us and for one or more other investment programs managed by them, but the amount available is less than the amount sought by all of their investment programs, they will allocate the investment among us and such other investment programs in proportion to the relative amounts of the investment sought by each. If the portion of the investment allocable to a particular investment program would be too small for it to be appropriate for that investment program, either because of economic or market inefficiency, regulatory constraints (such as REIT qualification or exclusion from regulation under the Investment Company Act) or otherwise, that portion will be reallocated among the other investment programs. Investment programs that do not receive an allocation will have preference in future investments where investment programs are seeking more of the investment than is available so that, on an overall basis, each investment program is treated equitably.

To equitably allocate investments that the Manager or Resource America has acquired at varying prices, the Manager and Resource America 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 we may purchase investments originated by those entities within 60 days before our investment.

Except as described above or provided for in our management agreement with the Manager and Resource America, we have not adopted a policy that expressly prohibits transactions between us or any of our directors, officers, employees, security-holders or affiliates. However, our code of business conduct and ethics prohibits any transaction that involves an actual or potential conflict except for transactions permitted under guidelines which may be adopted by our Board of Directors. No such guidelines have been adopted as of the date of this report. In addition, our Board of Directors may approve a waiver of the code of ethics and business conduct for a specific transaction, which must be reported to our stockholders to the extent required by applicable law or NYSE rule. No such waivers have been granted through the date hereof.

Director Independence

Our common stock is listed on the NYSE and, as a result, we are subject to its listing standards. The board of directors has determined that Messrs. Beach, Hart, Ickowicz, Levin and Neff each satisfy the requirement for independence set out in Section 303A.02 of the rules of the NYSE and that each of these directors has no material relationship with us (other than being a director and/or a stockholder). In making its independence determinations, the board of directors sought to identify and analyze all of the facts and circumstances relating to any relationship between a director, his immediate family or affiliates and our company and our affiliates and did not rely on categorical standards other than those contained in the NYSE rule referenced above.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

The aggregate fees billed by our independent auditors, Grant Thornton LLP, for professional services rendered for the audit of our annual financial statements for the years ended December 31, 2009 and 2008 (including a review of internal controls for 2009 and 2008 as required under Section 404 of the Sarbanes-Oxley Act of 2002) and for the reviews of the consolidated financial statements included in our Quarterly Reports on Form 10-Q during each of the years then ended were $572,000 and $668,000, respectively.

The aggregate fees billed by Grant Thornton LLP for audit services in connection with the filing of our registration statements with the Securities and Exchange Commission were approximately $117,000 and $42,000 for the years ended December 31, 2009 and 2008, respectively.

Audit-Related Fees

The aggregate fees billed by Grant Thornton LLP for audit-related services, including consulting on accounting issues were $0 and $40,000 for the years ended December 31, 2009 and 2008, respectively.

Tax Fees

There were no fees paid to Grant Thornton LLP for professional services related to tax compliance, tax advice or tax planning for the years ended December 31, 2009 and 2008.

All Other Fees

We did not incur fees in 2009 and 2008 for other services not included above.

Audit Committee Pre-Approval Policies and Procedures

The audit committee will, on at least an annual basis, review audit and non-audit services performed by Grant Thornton, LLP as well as the fees charged by Grant Thornton, LLP for such services. Our policy is that all audit and non-audit services must be pre-approved by the audit committee. All of such services and fees were pre-approved during the year ended December 31, 2009.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2009 and 2008.

Consolidated Statements of Operation for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Stockholders' Equity for years ended
December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II –Valuation and Qualifying Accounts
Schedule IV – Mortgage Loans on Real Estate

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3. Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Resource Capital Corp. (1)
3.2	Amended and Restated Bylaws of Resource Capital Corp. (1)
4.1	Form of Certificate for Common Stock for Resource Capital Corp. (1)
4.2(a)	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., dated May 25, 2006. (2)
4.2(b)	Amendment to Junior Subordinated Indenture and Junior Subordinated Note due 2036 between Resource Capital Corp. and Wells Fargo Bank, N.A., dated October 26, 2009 and effective September 30, 2009. (11)
4.3(a)	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated May 25, 2006. (2)
4.3(b)	Amendment to Amended and Restated Trust Agreement and Preferred Securities Certificate among Resource Capital Corp., Wells Fargo Bank, N.A. and the Administrative Trustees named therein, dated October 26, 2009 and effective September 30, 2009. (11)
4.4	Amended Junior Subordinated Note due 2036 in the principal amount of $25,774,000, dated October 26, 2009. (11)
4.5(a)	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., dated September 29, 2006. (3)
4.5(b)	Amendment to Junior Subordinated Indenture and Junior Subordinated Note due 2036 between Resource Capital Corp. and Wells Fargo Bank, N.A., dated October 26, 2009 and effective September 30, 2009. (11)
4.6(a)	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated September 29, 2006. (3)
4.6(b)	Amendment to Amended and Restated Trust Agreement and Preferred Securities Certificate among Resource Capital Corp., Wells Fargo Bank, N.A. and the Administrative Trustees named therein, dated October 26, 2009 and effective September 30, 2009. (11)
4.7	Amended Junior Subordinated Note due 2036 in the principal amount of $25,774,000, dated October 26, 2009. (11)
10.1(a)	Master Repurchase Agreement between RCC Real Estate SPE 3, LLC and Natixis Real Estate Capital. (4)
10.1(b)	First Amendment to Master Repurchase Agreement between RCC Real Estate SPE 3, LLC and Natixis Real Estate Capital, dated September 25, 2008. (5)
10.1(c)	Second Amendment to Master Repurchase Agreement between RCC Real Estate SPE 3, LLC and Natixis Real Estate Capital, dated November 25, 2008. (6)
10.1(d)	Letter Agreement with respect to master Repurchase Agreement between Natixis Real Estate Capital, Inc. and RCC Real Estate SPE 3, LLC, dated as of March 13, 2009. (7)
10.1(e)	Letter Agreement with respect to Master Repurchase Agreement between Natixis Real Estate Capital and RCC Real Estate SPE 3, LLC, dated June 29, 2009. (8)
10.2(a)	Guaranty made by Resource Capital Corp. as guarantor, in favor Natixis Real Estate Capital, Inc., dated April 20, 2007. (4)
10.2(b)	Second Amendment to Guaranty made by Resource Capital Corp. as guarantor, in favor of Natixis Real Estate Capital, Inc., dated September 25, 2008. (5)
10.3(a)	Amended and Restated Management Agreement between Resource Capital Corp., Resource Capital Manager, Inc. and Resource America, Inc. dated as of June 30, 2008. (9)
10.3(b)	

	First Amendment to Amended and Restated Management Agreement between Resource Capital Corp., Resource Capital Manager, Inc. and Resource America, Inc. dated as of June 30, 2008. (10)
10.4	2005 Stock Incentive Plan. (1)
10.5	2007 Omnibus Equity Compensation Plan. (12)
14.1	Code of Ethics
21.1	List of Subsidiaries of Resource Capital Corp.
23.1	Consent of Grant Thornton LLP
31.1	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350.
32.2	Certification Pursuant to 18 U.S.C. Section 1350.

(1) Filed previously as an exhibit to the Company’s registration statement on Form S-11, Registration No. 333-126517.

(2) Filed previously as an exhibit to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(3) Filed previously as an exhibit to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

(4) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on April 23, 2007.

(5) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on September 29, 2008.

(6) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on December 2, 2008.

(7) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on March 17, 2009.

(8) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on July 6, 2009.

(9) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on July 3, 2008.

(10) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed on October 20, 2009.

(11) Filed previously as an exhibit to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.

(12) Filed previously as an exhibit to the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RESOURCE CAPITAL CORP. (Registrant)

March 15, 2010	By:	/s/ Jonathan Z. Cohen
		Jonathan Z. Cohen
		Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Steven J. Kessler STEVEN J. KESSLER	Chairman of the Board	March 15, 2010
/s/ Jonathan Z. Cohen JONATHAN Z. COHEN	Director, President and Chief Executive Officer	March 15, 2010
/s/ Walter T. Beach WALTER T. BEACH	Director	March 15, 2010
/s/ Edward E. Cohen EDWARD E. COHEN	Director	March 15, 2010
/s/ William B. Hart WILLIAM B. HART	Director	March 15, 2010
/s/ Gary Ickowicz GARY ICKOWICZ	Director	March 15, 2010
/s/ Murray S. Levin MURRAY S. LEVIN	Director	March 15, 2010
/s/ P. Sherrill Neff P. SHERRILL NEFF	Director	March 15, 2010
/s/ David J. Bryant DAVID J. BRYANT	Senior Vice President Chief Financial Officer, Chief Accounting Officer and Treasurer	March 15, 2010

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SCHEDULE II
Resource Capital Corp.
Valuation and Qualifying Accounts
(dollars in thousands)

	Balance at beginning of period	Charge to expense	Write-offs	Recoveries	Balance at end of period
Allowance for loans and lease losses:					
Year Ended December 31, 2009	$44,317	$61,383	$(57,450)	$12	$48,262
Year Ended December 31, 2008	$5,918	$46,160	$(7,761)	$–	$44,317

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Resource Capital Corp.
Schedule IV—Mortgage Loans on Real Estate
As of December 31, 2009
(Dollars in thousands)

Type of Loan/ Borrower	Description/ Location	Interest Payment Rates	Final Maturity Date	Periodic Payment Terms (1)	Prior Liens (2)	Face Amount of Loans (3)	Net Carrying Amount of Loans
Whole Loans:							
Borrower A	Multi-Family/ San Francisco, CA	LIBOR + 4.25%	04/8/2010	I/O	–	33,719	24,172
Borrower B	Multi-Family/ Renton, WA	LIBOR + 3.50%	01/10/2012	I/O	–	31,100	30,846
Borrower C	Hotel/ Tucson, AZ	LIBOR + 3.50%	12/01/2016	I/O	–	31,500	31,243
Borrower D-1	Hotel/ Los Angeles, CA	LIBOR + 8.235%	06/05/2010	I/O (4)	–	28,000	27,736
Borrower D-2	Hotel/ Los Angeles, CA	LIBOR + 10.0%	06/05/2010	I/O (4)	–	5,350	5,306
Borrower E	Multi-Family/ Northglenn, CO	LIBOR + 2.60%	03/05/2010	I/O	–	28,000	27,746
Borrower F	Retail/ Hayward, CA	LIBOR + 2.50%	01/05/2012	I/O	–	24,145	23,948
Borrower G	Multi-Family/ San Francisco, CA	LIBOR + 4.25%	04/08/2010	I/O	–	33,078	23,861
Borrower H	Hotel/ Studio City, CA	LIBOR + 3.20%	02/05/2010	I/O	–	25,750	25,539
Borrower I	Land/ Studio City, CA	LIBOR + 2.95%	02/05/2010	I/O	–	26,150	25,936
All other Whole Loans Individually less than 3%						217,672	215,685
Total Whole Loans						484,464	462,018
Mezzanine Loans:							
Borrower J	Hotel/		05/9/2010	I/O	–	38,072	37,775

	Various	LIBOR + 2.85%					
All other Whole Loans Individually less than 3%						144,451	143,458
Total Mezzanine Loans						182,523	181,233
B Notes:							
Borrow K	Office/ New York, NY	FIXED + 7.19%	07/11/2016	I/O	–	23,718	23,679
All other Whole Loans Individually less than 3%						57,732	57,131
Total B Notes						81,450	80,810
Total Loans						748,437 (5)	724,061 (6)

(1) IO = interest only.
(2) Represents only Third Party Liens
(3) Does not include unfunded commitments.
(4) Borrower D is a whole loan and the participations above represent the Senior (D-1) and Mezzanine (D-2) portions.
(5) All loans are current with respect to principal and interest payments due.
(6) The net carrying amount of loans includes an allowance for loan loss of $29.3 million at December 31, 2009 allocated as follows: Whole Loans ($22.2 million); Mezzanine Loans ($6.4 million) and B Notes ($0.7 million).