Resource Capital Corp.
Form 10-K
March 14, 2011
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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, 2010

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

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

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

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 x

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

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 x 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 o No o

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. x

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

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

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

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, 2010) was approximately $259,621,338.

The number of outstanding shares of the registrant’s common stock on March 8, 2011 was 61,943,670 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 regarding our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Forward-looking statements we make in this report are subject to various risks and uncertainties that could cause actual results to vary from our forward-looking statements, including:

the factors described in this report, including those set forth under the sections captioned “Risk Factors,” “Business,” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations;”

changes in our industry, interest rates, the debt securities markets, real estate markets or the general economy;

increased rates of default and/or decreased recovery rates on our investments;

availability, terms and deployment of capital;

availability of qualified personnel;

changes in governmental regulations, tax rates and similar matters;

changes in our business strategy;

availability of investment opportunities in commercial real estate-related and commercial finance assets;

the degree and nature of our competition;

the adequacy of our cash reserves and working capital; and

the timing of cash flows, if any, from our investments.

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

PART I

ITEM 1. BUSINESS

General

We are a 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., which we refer to as the Manager, a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ: REXI), a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through our commercial real estate, commercial finance and financial fund management operating segments. As of December 31, 2010, Resource America managed approximately $12.0 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 target the following asset classes:

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

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, particularly with respect to our legacy commercial real estate related assets. During the years ended December 31, 2010 and 2009, we recorded provisions for loan and lease losses of $43.3 million and $61.4 million, respectively. All of the 2010 provisions are directly attributable to our commercial real estate loan portfolio, which were offset slightly by reductions with respect to the bank loan portfolio. We also recorded net impairment losses of $26.8 million and $13.5 million during the years ended December 31, 2010 and 2009, respectively, on our available-for-sale and held-to-maturity securities. The vast majority of these impairments come from our CMBS portfolio. In addition, we recorded losses through other comprehensive income of $19.3 million and $47.6 million on our available-for-sale portfolio as of December 31, 2010 and 2009, respectively. Based on these trends, our legacy CRE investments worsened, while the bank loan and lease receivable portfolios improved.

The events occurring in the credit markets from the second half of 2007 until mid to late 2010, have impacted our financing and investing strategies and, as a result, our ability to originate new investments and to grow. 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 had largely disappeared through early to mid 2010. Short-term financing through warehouse lines of credit and repurchase agreements had become largely unavailable and unreliable as increasing volatility in the valuation of assets similar to those we originate had increased the risk of margin calls. During 2010, we began to see the frozen credit markets thaw and we closed on a new $120.0 million securitization with respect to an equipment leasing portfolio in May 2010. In addition, in February 2011, we entered into a $100.0 million, two year term facility with Wells Fargo to purchase CMBS.

On the asset side, we invested $5.0 million through Resource TRS, our taxable REIT subsidiary, in structured finance vehicles, principally CLO equity, which we have classified as trading securities. Because of the success of that new investment, we committed an additional $8.0 million through February 2011. We also began to cautiously reenter the CRE lending market in the fourth quarter of 2010 and through February 2011 have closed on three new whole loans totaling $24.2 million. We also purchased three newly underwritten CMBS for $7.2 million in February 2011 in conjunction with the Wells Fargo facility. Furthermore, in January 2011, we've continued to invest in the lease receivable portfolio and made a preferred stock investment in Leaf Commercial Capital, Inc, a recently formed equipment leasing enterprise and a subsidiary of our Manager. In February 2011, we purchased a company that manages $1.9 billion of bank loan assets and are entitled to collect senior, subordinated and incentive management fees. These recent asset purchases and credit market events indicate that we expect to be able to invest a significant portion of our available unrestricted and restricted cash balances and, as a result, modestly grow our net interest income in 2011.

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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, 2010, we managed $1.9 billion of assets, including $1.5 billion of assets financed and held in CDOs. The core of our management process is credit analysis which we use to actively monitor our existing investments and as a basis for evaluating new investments. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes, and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stress analysis. After making an investment, the Manager and Resource America engage in active monitoring of our investments for early detection of troubled and deteriorating assets. If a default occurs, we will use our senior management team's asset management skills in seeking to mitigate the severity of any losses, and we will seek to optimize the recovery from assets if we foreclose upon them.

Managing our interest rate and liquidity risk. We generally seek to manage interest rate and liquidity risk so as to reduce the effects of interest rate changes on us. On our long-term financing we seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. Historically, we have used CDO vehicles structured for us by our Manager to achieve this goal. From 2008 through 2010, we financed new investments predominantly through existing capacity in our CDOs or through cash available from principal repayments on or payoffs of existing investments. As credit markets have begun to reopen, we also expect to cautiously utilize new leverage to finance new investments. We also seek to mitigate interest rate risk through 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, 2010 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, 2010 was invested 76.7% in commercial real estate loans, 18.4% in commercial bank loans, 3.1% in lease receivables and 1.8% in structured notes. In 2011, we expect to recycle liquidity within our CDO structures to make investments and replace loans that have been paid down or paid off and to replace loans that may be sold.

Debt repurchase. We have been able to take advantage of market illiquidity that resulted in limited trading of CDO notes issued in our two commercial real estate, or CRE, CDO securitizations 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 mitigate credit losses in our loan and lease portfolio and impairment losses in our investment securities portfolio. In 2010, we bought $91.4 million par value of our CRE CDO debt, a discount to par of 38%, for approximately $56.7 million. As a result, our gain on the extinguishment of debt for 2010 was $34.6 million which offset in part the credit and impairment losses we realized in 2010.

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.

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Our Operating Policies and Strategies

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

Financing policies. We 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. Recent credit markets had significantly limited our ability to execute our long term financing strategy. We will continue to look to invest our restricted cash in our CRE CDO structures and reinvesting loan repayments received in new investments. We also will cautiously use leverage to finance new investments where we can achieve attractive risk-adjusted returns in today's markets.

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

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

Our Investment Strategy

General

The following table describes our investment-class allocations and certain characteristics of each class as of December 31, 2010 (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	$117,245	$134,330	8.09%	4.48%
B notes	57,451	56,644	3.41%	5.62%

Whole loans	441,372	398,538	24.01%	4.17%
Bank loans	856,436	850,500	51.24%	3.57%
	1,472,504	1,440,012	86.75%	
Loans held for sale:				
Bank loans	4,027	4,027	0.24%	3.07%
Commercial loans	24,566	24,566	1.48%	5.90%
	28,593	28,593	1.72%	
Investments in Available-for-Sale Securities:				
CMBS	83,224	63,938	3.85%	5.08%
Other ABS	–	22	–%	–%
	83,224	63,960	3.85%	
Investment Securities-Trading:				
Structured notes	7,984	17,723	1.07%	–%
Investment in lease receivables:	109,682	109,612	6.61%	10.50%
Total portfolio/weighted average	$1,701,987	$1,659,900	100.00%	

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(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. Since the beginning of 2008 through December 31, 2010, we modified 27 commercial real estate loans, or CRE loans.

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

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

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

Mezzanine financing. We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Our mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. 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.

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The following charts describe the loan type, property type and the geographic breakdown of our commercial real estate loan portfolio as of December 31, 2010 (based on par value):

Loan Type

Property Type

Geographic by State

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As these charts demonstrate, our portfolio contains a diversified mix of property types with approximately 93% of the portfolio focus on four types, Multifamily 27%, Office 23%, Hotel 32% and Retail 11%.

Our geographic mix includes approximately 38% in California which we split into Southern (26%) and Northern (12%) regions. Within the Southern California region, we have 90% of our portfolio in whole loans with 79% in three property types, Hotel 49%, Office 16% and Retail 13%. Within the Northern CA region, we have 81% of our portfolio in whole loans with 81% in two property types, Multifamily 50% and Retail 31%. As noted in these statistics, this portfolio is made up primarily of whole loans where we are able to better control the structure of the loan and maintain a direct lending relationship with the borrower. We view the investment and credit strategy as being adequately diversified across property type and loan type across both the Southern and Northern California regions.

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

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

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 2010, these investments did not constitute a material portion of our assets. During 2011, 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, 2010 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 these investments in 2006 and 2007.

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.

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The following chart describes the industry breakdown of our bank loans as of December 31, 2010 (based on par value):

Bank Loans by Industry

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

Diversified/conglomerate manufacturing	3.3%
Leisure, amusement, motion pictures, entertainment	3.1%
Aerospace and defense	3.0%
Hotels, motels, inn and gaming	2.4%
Finance	1.9%
Machinery (non-agriculture, non-construction, non-electronic)	1.7%
Ecological	1.6%
Cargo transport	1.5%
Utilities	1.4%
Oil and gas	1.3%
Buildings and real estate	1.3%
Diversified natural resources, precious metals and minerals	1.2%
Personal and nondurable consumer products (mfg. only)	1.2%
Mining, steel, iron and non-precious metals	1.1%
Farming and agriculture	1.0%
Packaging and forest products	0.9%
Beverage, food and tobacco	0.6%
Containers, packaging and glass	0.6%
Home and office furnishings, housewares and durable consumer products	0.4%
Textiles and leather	0.3%
Temporary staffing	0.1%
Insurance	0.1%

Lease receivables. We invest in small- and middle-ticket full payout lease receivables. 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.

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The following charts describe the industry and the geographic breakdown of our lease receivables as of December 31, 2010 (based on par value):

Lease Receivables 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 have been generally affiliated with financial institutions because, under then-existing regulatory and tax structures, unlike the proceeds from debt securities the proceeds from trust preferred securities could be treated as primary regulatory capital by the financial institution, while it could deduct the interest it paid on the debt obligation held by the trust from its income for federal income tax purposes.

Competition

See “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 provides us with a Chairman of the Board, a Chief Financial Officer, three accounting professionals and an investor relations officer (on a shared basis). The Manager receives fees and is reimbursed for its expenses as follows:

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

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

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

Pursuant to an amendment 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. In addition, we began reimbursing our Chairman for wages, salary and benefits in February 2010.

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

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

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

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

In conjunction with our offering of our common stock in December 2009, 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 would not exceed $1.5 million per quarter.

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

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

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

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

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

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

the dissolution of the Manager; and

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

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

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

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

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

We believe that RCC Real Estate, Inc., the subsidiary that as of December 31, 2010 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.

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We treat our investments in whole mortgage loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy-remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides future guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. Historically, we have held "whole pool certificates" in mortgage loans, although, at December 31, 2010, we had no whole pool certificates in our portfolios. Pursuant to existing SEC staff guidance, we consider whole pool certificates to be qualifying real estate assets. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a qualifying real estate asset for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test. We do not expect that investments in CDOs, other ABS, bank loans, lease receivables, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

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

Our other subsidiaries, RCC Commercial, Inc., or RCC Commercial, and Resource TRS, Inc., or Resource TRS, 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.

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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 provides us with three accounting professionals, each of whom is exclusively dedicated to our operations, and a director of investor relations who is 50% dedicated to our operations. Under the amendment, we bear the expense of the wages, salaries and benefits of the Chief Financial Officer and three accounting professionals, and 50% of the salary and benefits of the director of investor relations. In addition, we began reimbursing our Chairman for wages, salary and benefits in February 2010. 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, 2010, Resource America had 688 employees involved in asset management, including 100 asset management professionals and 588 asset management support personnel, respectively.

Corporate Governance and Internet Address

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors, 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 economic 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.

Although credit market conditions have improved over those of the previous two years, there are still significant 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. Since mid-2007, economic and credit market confidence have had significant adverse effects on us, causing us to record material impairment charges with respect to investments we hold, and significant increases in our provision for loan losses, 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 and credit market conditions could further harm our financial condition, income, ability to make distributions to our stockholders and the price of our common stock.

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

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

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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.

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 debt and equity capital for growth in our operations. Although we successfully completed an offering of common stock in December 2009, and have raised equity capital through our dividend reinvestment and stock purchase program, 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 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 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 value of TRS stock and securities relative to the other assets owned by a REIT. 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 debt and equity capital were to become more readily available to us, we cannot assure you that it would be on terms that would enable us to strengthen our profitability or ability to make distributions.

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

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

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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, resulting in reduction or elimination of distributions to more junior securities until the over-collateralizatoin requirements have been met or the senior debt securities have been paid in full. 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, interest coverage or other criteria) may restrict our ability to receive cash distributions from assets collateralizing the securities issued by the CDO entity. Although at December 31, 2010, all of our CDOs met their performance tests, we cannot assure you that our CDOs will satisfy the performance tests in the future. For information concerning compliance by our CDOs with their over-collateralization tests, see "Management's Discussion and Analysis of Financial Condition and Results of Operation - Summary of CDO and CLO Performance Statistics."

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.

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

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.

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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.

Approximately 92% 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, 2010, approximately 92% of our outstanding hedges, with a notional amount of $166.8 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.

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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 and other assets for which there is no public market. A portion of these securities or other assets may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. If we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we, the Manager or Resource America has or could be attributed with material non-public information regarding such business entity.

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

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

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

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

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

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

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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 $26.6 million of other-than-temporary impairment through our consolidated statements of operations during the year ended December 31, 2010.

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

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

A significant risk associated with our investment in commercial real estate-related loans, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of our assets would decline. Even if assets underlying investments we may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, with respect to assets that are not match-funded or that have been acquired with variable rate or short-term financing, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread. 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 loan-to-value ratios than conventional senior lien financing, resulting in less equity in the collateral and increasing the risk of loss of principal. If a borrower defaults or declares bankruptcy, we may be subject to agreements restricting or eliminating our rights as a creditor, including rights to call a default, foreclose on collateral, accelerate maturity or control decisions made in bankruptcy proceedings. In addition, the prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to economic downturns or individual issuer developments because the ability of obligors of instruments underlying the securities to make principal and interest payments may be impaired. In such event, existing credit support relating to the securities' structure may not be sufficient to protect us against loss of our principal.

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

We have historically invested in small- and middle-ticket lease receivables. 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.

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

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

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

We currently hold, and expect that we will hold in the future, portfolio investments that are not publicly traded, 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 loan-to-value ratios than our real estate-related investments. Our bank loan investments, and our ABS backed by loans, involve loans with a par amount of $207.8 million at December 31, 2010 that have an interest-only payment schedule or a schedule that does not fully amortize principal over the term of the loan, which will make repayment of the loan depend upon the borrower's liquidity or ability to refinance the loan at maturity. Numerous factors affect a borrower's ability to repay or refinance loans at maturity, including national and local economic conditions, a downturn in a borrower's industry, loss of one or more principal customers and conditions in the credit markets. A deterioration in a company's financial condition or prospects may be accompanied by a deterioration in the collateral for the bank loan or any ABS backed by such company's loans.

Risks Related to Our Manager

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

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

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

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

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

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

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

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

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

Our officers and three of our directors, Edward E. Cohen, Jonathan Z. Cohen, and Steven J. Kessler were officers or directors of the Manager or 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.

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

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

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

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

Risks Related to Real Estate Investments

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

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

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

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

tenant mix, success of tenant businesses and property management decisions,

- property location and condition,
- competition from comparable types of properties,
- changes in laws that increase operating expenses or limit rents that may be charged,
- any need to address environmental contamination at the property,
- the occurrence of any uninsured casualty at the property,
- changes in national, regional or local economic conditions and/or the conditions of specific industry segments in which our lessees may operate,
- declines in regional or local real estate values,
- declines in regional or local rental or occupancy rates,
- increases in interest rates, real estate tax rates and other operating expenses,
- increases in costs of construction material;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation, and
- acts of God, terrorism, social unrest and civil disturbances.

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

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

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

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 acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority, or a majority or more of all voting power. A "control share acquisition" means the acquisition of control shares, subject to specific exceptions.

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

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

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

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

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

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

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We believe that we have been organized and operated in a manner that has enabled us to qualify as a REIT for federal income tax purposes commencing with our taxable 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.

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, 2009, and 2010 taxable years, but may do so for distributions with respect to 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.

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

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

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

A REIT may own up to 100% of the securities of one or more TRSs. A TRS may earn specified types of income or hold specified assets that would not be qualifying income or assets if earned or held directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 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.

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

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

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

We likely will be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs, including from our current and contemplated equity investments in CDOs, such as our investment in Apidos CDO I, Apidos CDO III 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.

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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. We believe that our facilities are adequate for our current needs.

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 2010				
Fourth Quarter	$ 7.65	$ 6.27	$ 0.25	(1)
Third Quarter	$ 6.68	$ 5.17	$ 0.25	
Second Quarter	$ 7.47	$ 5.15	$ 0.25	
First Quarter	$ 7.18	$ 5.05	$ 0.25	

Fiscal 2009						
Fourth Quarter	$	5.40	$	4.33	$	0.25
Third Quarter	$	6.21	$	2.76	$	0.30
Second Quarter	$	3.89	$	2.96	$	0.30
First Quarter	$	3.83	$	1.50	$	0.30

(1) We distributed a regular dividend of $0.25 on January 26, 2011, to stockholders of record as of December 31, 2010.

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, 2011, there were 61,943,670 common shares outstanding held by 281persons of record.

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

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

In accordance with the provisions of the management agreement, on January 31, 2010, July 31, 2010 and October 31, 2010 we issued 73,815, 124,688 and 53,490 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, 2009, for the three months ended June 30, 2010 and for the three months ended September 30, 2010, 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, 2010. 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,				
	2010	2009	2008	2007	2006
Consolidated Statement of Operations Data:					
REVENUES:					
Interest income	$103,911	$97,593	$134,341	$176,995	$137,075
Interest expense	36,466	45,427	79,619	121,564	101,851
Net interest income	67,445	52,166	54,722	55,431	35,224
OPERATING EXPENSES	32,608	16,059	12,438	13,415	11,144
	34,837	36,107	42,284	42,016	24,080
OTHER (EXPENSES) REVENUES:					
Impairment losses on investment securities	(29,042)	(27,490)	(26,611)	(48,853)	(2,612)
Recognized in other comprehensive loss	(2,238)	(14,019)	(26,611)	(22,576)	(2,612)
Net impairment losses recognized in earnings	(26,804)	(13,471)	–	(26,277)	–
Net realized gain (loss) on investment securities available-for-sale and loans	4,821	1,890	(1,637)	(15,098)	(8,627)
Net realized gain on investments securities-trading	5,052	–	–	–	–
Net unrealized gain on investments securities-trading	9,739	–	–	–	–
Gain on deconsolidation	–	–	–	14,259	–
Provision for loan and lease losses	(43,321)	(61,383)	(46,160)	(6,211)	–
Gain on the extinguishment of debt	34,610	44,546	1,750	–	–
Gain on the settlement of loan	–	–	574	–	–
Other income (expense)	513	(1,350)	115	201	153
Total other (expense) revenue	(15,390)	(29,768)	(45,358)	(33,126)	(8,474)
NET INCOME (LOSS)	$19,447	$6,339	$(3,074)	$8,890	$15,606
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$29,488	$51,991	$14,583	$6,029	$5,354
Restricted cash	168,192	85,125	60,394	119,482	30,721
Investment securities-trading	17,723	–	–	–	–
	57,998	39,304	22,466	65,464	420,997

Investment securities available-for-sale, pledged as collateral, at fair value					
Investment securities available-for-sale, at fair value	5,962	5,238	6,794	–	–
Investment securities held-to-maturity, pledged as collateral	29,036	31,401	28,157	18,517	3,978
Property available-for-sale	4,444	–	–	–	–
Loans, pledged as collateral and net of allowances of $34.2 million, $47.1 million, $43.9 million, $0 and $0	1,443,271	1,557,757	1,684,622	1,748,122	1,236,310
Loans held for sale	28,593	8,050	–	–	–
Lease receivables, net of allowances of $70,000, $1.1 million, $450,000, $293,000 and $0, net of unearned income	109,612	927	104,015	95,030	88,970
Total assets	1,934,200	1,791,404	1,936,031	2,072,148	1,802,829
Borrowings	1,543,251	1,534,874	1,699,763	1,760,969	1,463,853
Total liabilities	1,585,874	1,562,574	1,749,726	1,800,542	1,485,278
Total stockholders’ equity	348,326	228,830	186,305	271,606	317,551
Per Share Data:					
Dividends declared per common share	$1.00	$1.15	$1.60	$1.62	$1.49
Net income (loss) per share – basic	$0.41	$0.25	$(0.12)	$0.36	$0.89
Net income (loss) per share – diluted	$0.41	$0.25	$(0.12)	$0.36	$0.87
Weighted average number of shares outstanding - basic	47,715,082	25,205,403	24,757,386	24,610,468	17,538,273
Weighted average number of shares outstanding - diluted	47,907,281	25,355,821	24,757,386	24,860,184	17,881,355

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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: REXI), or Resource America, a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through its commecial real estate, commercial finance and financial fund management operating segments. As of December 31, 2010, Resource America managed approximately $12.0 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 lease receivables 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, lease receivables 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 27 of our commercial real estate loans, caused us to enter into loan modifications. We have increased our allowance for loan and lease losses to reflect the effect of these conditions on our borrowers and have recorded both temporary and other than temporary impairments in the market valuation of the CMBS and other ABS in our investment portfolio. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2010, 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 had largely disappeared until mid 2010. During 2010, we began to see the previously frozen credit markets begin to thaw and in May 2010 we closed a new $120.0 million securitization on our equipment leasing portfolio. In addition, in February 2011, we entered into a $100.0 million, two year term facility with Wells Fargo to purchase CMBS. 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 $2.1 million during the year ended December 31, 2010.

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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, or CRE 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 credit enhancements to the loans. Since the beginning of 2008 through December 31, 2010, we have modified 27 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.

As economic conditions improve and we begin to access the credit markets on acceptable terms, our principal strategies are to manage our liquidity and originate new assets primarily through capital recycling as loan payoffs and paydowns occur and through existing capacities within our completed securitizations. The following is a summary of repayments we received during the year ended December 31, 2010:

$17.7 million of commercial real estate loans paid off;

$31.7 million of commercial real estate loan principal repayments;

$36.8 million at commercial real estate loan sale proceeds;

$267.0 million of bank loan principal repayments; and

$57.6 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. We expect that the reinvested capital and 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 2010 and 2009, we purchased CMBS which had $88.7 million par value at a discount to par of 22.5%, and bank loans which had $608.8 million par value at a discount to par of 9.0%. From the net discounts of approximately $32.8 million and $55.0 million, we expect to recognize income of approximately $5.5 million and $9.4 million in our CRE CDO and bank loan CLO portfolio, respectively, in 2011.

During 2010, we invested $5.0 million through Resource TRS, our taxable REIT subsidiary, in structured finance vehicles, principally CLO equity, which we have classified as trading securities. Because of the success of that new investment, we committed an additional $8.0 million through February 2011. Beginning in October 2010 through February 2011, we have underwritten three new CRE loans for a total of $24.2 million. We also purchased three newly underwritten CMBS for $7.2 million in February 2011 in conjunction with the Wells Fargo facility. Furthermore, in January 2011, we have continued to invest in the lease receivable portfolio and made a preferred stock investment in Leaf Commercial Capital, Inc, a recently formed equipment leasing enterprise and a subsidiary of our Manager. In February 2011, we purchased a company that manages $1.9 billion of bank loan assets and are entitled to collect senior, subordinated and incentive management fees. These recent asset purchases and credit market events indicate that we expect to be able to invest a significant portion of our available unrestricted and restricted cash balances and, as a result, modestly grow our net interest income in 2011.

We expect to continue to generate net investment income from our current investment portfolio and generate dividends for our shareholders.

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

Results of Operations

Our net income for the year ended December 31, 2010 was $19.4 million, or $0.41 per share (basic and diluted), as compared to net income of $6.3 million, or $0.25 per share (basic and diluted), for the year ended December 31, 2009, and compared to a net loss of $3.1 million, or ($0.12) per share (basic and diluted), for the year ended December 31, 2008.

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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,		
	2010	2009	2008
Interest income:			
Interest income from loans:			
Bank loans	$43,970	$35,770	$53,172
Commercial real estate loans	32,866	48,793	63,936
Total interest income from loans	76,836	84,563	117,108
Interest income from securities:			
CMBS-private placement	9,768	5,404	4,425
Securities held-to-maturity	1,466	1,807	1,934
Other ABS	200	14	19
Total interest income from securities available-for-sale	11,434	7,225	6,378
Leasing	11,306	4,336	8,180
Interest income – other:			
Interest income – other (1)	–	–	997
Preference payments on structured notes	3,112	–	–
Temporary investment in over-night repurchase agreements	1,223	1,469	1,678
Total interest income – other	4,335	1,469	2,675
Total interest income	$103,911	$97,593	$134,341

(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, 2010 Weighted Average		Year Ended December 31, 2009 Weighted Average		Year Ended December 31, 2008 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest income:						
Interest income from loans:						
Bank loans	4.82%	$ 907,582	3.87%	$ 943,854	5.62%	$ 947,753
Commercial real estate loans	4.68%	$ 694,153	6.12%	$ 785,380	7.48%	$ 840,874
Interest income from securities:						
CMBS-private placement	6.97%	$ 140,377	5.90%	$ 90,784	5.76%	$ 76,216

Securities held-to-maturity	4.12%	$	35,295	5.28%	$	33,249	7.72%	$	25,782
Other ABS	8.71%	$	2,300	4.98%	$	281	0.32%	$	6,000
Leasing	15.61%	$	75,008	6.88%	$	65,300	8.68%	$	94,864

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

Type of Security	Coupon Interest	Unamortized (Discount) Premium	Net Amortization /Accretion	Interest Income	Fee Income	Total
Year Ended December 31, 2010:						
Bank loans	3.24%	$ (26,568)	$ 13,919	$ 30,051	$ –	$ 43,970
Commercial real estate loans	4.50%	$ (171)	(15)	32,163	718	32,866
Total interest income from loans			13,904	62,214	718	76,836
CMBS-private placement	3.79%	$ (23,294)	4,359	5,410	–	9,768
Securities held-to-maturity	2.45%	$ (2,844)	409	1,056	–	1,466
Other ABS			–	200	–	200
Total interest income from securities			4,768	6,666	–	11,434
Leasing			–	11,306	–	11,306
Preference payments on structured notes			–	3,112	–	3,112
Other			–	1,223	–	1,223
Total interest income – other			–	4,335	–	4,335
Total interest income			$ 18,672	$ 84,521	$ 718	$ 103,911
Year Ended December 31, 2009:						
Bank loans	3.13%	$ (27,682)	$ 6,955	$ 28,815	$ –	$ 35,770
Commercial real estate loans	5.96%	$ (30)	66	48,094	633	48,793
Total interest income from loans			7,021	76,909	633	84,563
CMBS-private placement	4.28%	$ (29,030)	1,460	3,944	–	5,404
Securities held-to-maturity	4.54%	$ (3,103)	238	1,569	–	1,807
Other ABS			–	14	–	14
Total interest income from securities			1,698	5,527	–	7,225
Leasing			–	4,336	–	4,336
Preference payments on structured notes			–	–	–	–
Other			–	1,469	–	1,469
Total interest income – other			–	1,469	–	1,469
Total interest income			$ 8,719	$ 88,241	$ 633	$ 97,593
Year Ended December 31, 2008:						
Bank loans	5.53%	$ (8,459)	$ 946	$ 52,226	$ –	$ 53,172
Commercial real estate loans	7.18%	$ (8)	88	63,059	789	63,936

Total interest income from loans			1,034	115,285	789	117,108
CMBS-private placement	5.18%	$ (3,680)	444	3,981	–	4,425
Securities held-to-maturity	7.54%	$ (87)	–	1,934	–	1,934
Other ABS			–	19	–	19
Total interest income from securities			444	5,934	–	6,378
Leasing			–	8,180	–	8,180
Preference payments on structured notes			–	–	–	–
Other			–	2,675	–	2,675
Total interest income – other			–	2,675	–	2,675
Total interest income			$ 1,478	$ 132,074	$ 789	$ 134,341

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

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

Interest Income from Loans

Aggregate interest income from loans decreased $7.8 million (9%) to $76.8 million for the year ended December 31, 2010 from $84.6 million for the year ended December 31, 2009.

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

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

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

The decrease in commercial real estate loans was partially offset by an increase in interest income on bank loans which generated $44.0 million of interest income for the year ended December 31, 2010 as compared to $35.8 million for the year ended December 31, 2009, an increase of $8.2 million (23%). This increase resulted primarily from an increase in the weighted average yield earned by our bank loans to 4.82% for the year ended December 31, 2010 from 3.87% for the year ended December 31, 2009. This was principally a result of an increase in accretion income to $13.9 million for the year ended December 31, 2010 as compared to $7.0 million for the year ended December 31, 2009. The increase in accretion income is the result of the purchase of $608.8 million of bank loans at discounts during 2009 and 2010 and the accretion of those discounts into income. These discounted loan purchases are made as we reinvest the proceeds from loan payoffs from our borrowers and from the loans we have sold, typically for credit reasons.

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

Interest Income from Securities

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

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

an increase in the weighted average balance of assets of $49.6 million to $140.0 million for the year ended December 31, 2010 from $90.8 million for the year ended December 31, 2009, principally as a result of the purchase of $37.1 million par value of assets during the year ended December 31, 2010, and during the last half of the year ended December 31, 2009. This was partially offset by the impairment and subsequent non-payment of $24.8 million par value of assets during the fourth quarter of 2009 and in 2010; and

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

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Interest Income - Leasing

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

Interest Income - Other

Aggregate interest income-other increased $2.8 million (195%) to $4.3 million for the year ended December 31, 2010, as compared to $1.5 million for the year ended December 31, 2009 principally from preference payments on structured notes which generated $3.1 million for the year ended December 31, 2010. We had no investment in these securities during the year ended December 31, 2009. These payments vary from period to period and are based on cash flows from the underlying assets rather than on a contractual interest rate.

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.

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 effect of the decrease in the weighted average rate was 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 valuation allowances resulting from 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 were due to financial distress of the borrowers 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 which 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 available-for-sale 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:

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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 principally as a result of the purchase of $54.8 million par value of assets during the year ended December 31, 2009, largely 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 written down our equity investment in Ischus CDO II to $0 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.

Interest Expense

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

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,		
	2010	2009	2008
Interest expense:			
Bank loans	$9,573	$15,394	$35,165
Commercial real estate loans	8,068	11,072	27,924
CMBS-private placement	–	–	163
Leasing	5,737	2,143	4,357
General	13,088	16,818	12,010
Total interest income	$36,466	$45,427	$79,619

	Year Ended December 31, 2010 Weighted Average		Year Ended December 31, 2009 Weighted Average		Year Ended December 31, 2008 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest expense:						
Bank loans	1.04%	$ 906,000	1.68%	$ 906,000	3.82%	$ 906,000
Commercial real estate loans	1.46%	$ 543,345	1.70%	$ 649,258	3.91%	$ 696,492
CMBS-private placement	N/A	$ –	N/A	$ –	4.34%	$ 3,597
Leasing	8.81%	$ 65,176	4.42%	$ 44,388	4.67%	$ 89,778
General	5.45%	$ 231,821	5.01%	$ 322,720	3.00%	$ 383,860

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

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

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

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

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

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

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

General interest expense was $13.1 million for the year ended December 31, 2010, as compared to $16.8 million for the year ended December 31, 2009, a decrease of $3.7 million (22%). This decrease was primarily from the sale of our legacy leasing portfolio, at par, in June 2009 which also resulted in the transfer of the related interest rate hedges and a decrease in that associated cost.

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 most of these notes; and

a decrease in the weighted average balance of the related financings 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.

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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.

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,		
	2010	2009	2008
Non-investment expenses:			
Management fees-related party	$13,216	$8,363	$6,301
Equity compensation-related party	2,221	1,240	540
Professional services	3,627	3,866	3,349
Insurance	759	828	641
Depreciation on operating leases	4,003	–	–
General and administrative	3,061	1,764	1,848
Income tax expense (benefit)	5,721	(2)	(241)
Total non-investment expenses	$32,608	$16,059	$12,438

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

Management fees – related party increased $4.9 million (58%) to $13.2 million for the year ended December 31, 2010 as compared to $8.4 million for the year ended December 31, 2009. These amounts represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The base management fees increased by $1.6 million (43%) to $5.4 million for the year ended December 31, 2010 as compared to $3.8 million for the year ended December 31, 2009. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $76.8 million of net proceeds from the sales of common stock through our Dividend Reinvestment Plan or DRIP during the year ended December 31, 2010 as well as the receipt of $42.4 million from the proceeds of our May 2010 common stock offering. Incentive management fees increased $2.8 million to $7.4 million for the year ended December 31, 2010 from $4.6 million for the year ended December 31, 2009 primarily as a result of income from our structured finance portfolio. There was no such portfolio and therefore no such income during the year ended December 31, 2009. Management fees also include fees of $438,000 for the year ended December 31, 2010 to our structured finance manager.

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

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

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

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

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

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 the value 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 the establishment of a valuation allowance against deferred tax assets 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,		
	2010	2009	2008
Impairment losses on investment securities	$(29,042)	$(27,490)	$(26,611)
Recognized in other comprehensive loss	(2,238)	(14,019)	(26,611)
Net impairment losses recognized in earnings	(26,804)	(13,471)	–

Net realized gains (losses) on investment securities available-for sale and loans	4,821	1,890	(1,637)
Net realized gain on investment securities-trading	5,052	–	–
Net unrealized gain on investment securities-trading	9,739	–	–
Provision for loan and lease losses	(43,321)	(61,383)	(46,160)
Gain on the extinguishment of debt	34,610	44,546	1,750
Gain on the settlement of a loan	–	–	574
Other income (expense)	513	(1,350)	115
Total	$(15,390)	$(29,768)	$(45,358)

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

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

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

Net realized gain on investment securities-trading was $5.1 million for the year ended December 31, 2010. No such portfolio existed prior to June 2010. The gains are the result of sales of structured finance securities.

Net unrealized gain on investment securities-trading was $9.7 million for the year ended December 31, 2010. No such portfolio existed prior to June 2010. The gains are the result of marking the structured finance positions to market as of December 31, 2010.

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

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

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

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

Gain on the extinguishment of debt decreased $9.9 million (22%) during the year ended December 31, 2010 to $34.6 million for the year ended December 31, 2010 from $44.5 million for the year ended December 31, 2009. During the year ended December 31, 2010, we bought back $91.4 million of debt issued by Resource Real Estate Funding CDO 2006-1, or RREF CDO 2006-1 and Resource Real Estate Funding CDO 2007-1, or RREF CDO 2007-1. The notes, issued at par, were repurchased as an investment by us at a weighted average price of 62.1% of par resulting in a gain of $34.6 million. During the year ended December 31, 2009, we bought back $55.5 million of debt issued by RREF CDO 2006-1 and RREF CDO 2007-1. The notes, issued at par, were repurchased as an investment by us at a weighted average price of 19.8% of par resulting in a gain of $44.5 million. The related deferred debt issuance costs were immaterial in all transactions.

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

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.

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Net realized gains (losses) on securities available-for-sale and loans 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 bank loan 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.

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

	Year Ended December 31,			
		2009		2008
CRE loan portfolio	$	31,856	$	14,817
Bank loan portfolio		26,855		30,442
Lease receivables		2,672		901
	$	61,383	$	46,160

The principal reason for the increased provision is overall worsening credit markets in 2009. We 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 the year ended December 31, 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 during the year ended December 31, 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. Under the terms of the agreement, we were to be reimbursed for any such termination costs. There was no similar transaction during the year ended December 31, 2009.

Financial Condition

Summary

Our total assets at December 31, 2010 were $1.9 billion as compared to $1.8 billion at December 31, 2009. The increase in total assets was principally due to the addition of lease receivables to our investment portfolio as a result of a new leasing securitization entered into in May 2010.

Investment Portfolio

The following tables summarize the amortized cost and net carrying amount of our investment portfolio as of December 31, 2010 and 2009, 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, 2010						
Floating rate						
CMBS-private placement	$ 31,127	100.00%	$ 9,569	30.74%	$ (21,558)	-69.26%
Structured notes	7,984	34.09%	17,723	75.67%	9,739	41.58%
Other ABS	–	0.00%	22	0.26%	22	0.26%
B notes (1)	26,485	99.94%	26,071	98.38%	(414)	-1.56%
Mezzanine loans (1)	83,699	100.00%	82,680	98.78%	(1,019)	-1.22%
Whole loans (1)	441,372	99.92%	419,207	94.91%	(22,165)	-5.01%
Bank loans (2)	856,436	96.99%	850,500	96.32%	(5,936)	-0.67%
Loans held for sale (3)	13,593	55.92%	13,593	55.92%	–	0.00%
ABS held-to-maturity (4)	29,036	91.08%	25,941	81.37%	(3,095)	-9.71%
Total floating rate	1,489,732	95.86%	1,445,306	93.01%	(44,426)	-2.85%
Fixed rate						
CMBS – private placement	52,097	48.30%	54,369	50.41%	2,272	2.11%
B notes (1)	30,966	99.53%	30,482	97.97%	(484)	-1.56%
Mezzanine loans (1)	38,545	100.23%	31,012	80.64%	(7,533)	-19.59%
Loans held for sale (3)	15,000	75.00%	15,000	75.00%	–	0.00%
Lease receivables (5)	109,682	100.00%	109,612	99.94%	(70)	-0.06%
Total fixed rate	246,290	80.20%	240,475	78.30%	(5,815)	-1.90%
Grand total	$ 1,736,022	93.28%	$ 1,685,781	90.58%	$ (50,241)	-2.70%
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)	26,479	99.92%	26,263	99.11%	(216)	-0.81%
Mezzanine loans (1)	124,048	100.00%	123,058	99.20%	(990)	-0.80%
Whole loans (1)	403,230	99.81%	381,710	94.49%	(21,520)	-5.32%
Bank loans (2)	857,202	96.87%	798,614	90.25%	(58,588)	-6.62%
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	1,482,477	97.23%	1,370,191	89.82%	(112,286)	-7.41%
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%
Lease receivables (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	$ 1,738,531	95.78%	$ 1,591,800	87.70%	$ (146,731)	-8.08%

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(1) Net carrying amount includes an allowance for loan losses of $31.6 million at December 31, 2010, allocated as follows: B notes ($899,000), mezzanine loans ($8.5 million) and whole loans ($22.2 million). Net carrying

amount includes an allowance for loan losses of $29.3 million at December 31, 2009, allocated as follows: B notes ($666,000), mezzanine loans ($6.4 million) and whole loans ($22.2 million).

(2) The bank loan portfolio is carried at amortized cost less allowance for loan loss and was $853.8 million at December 31, 2010. The amount disclosed represents net realizable value at December 31, 2010, which includes a $2.6 million allowance for loan losses at December 31, 2010. The bank loan portfolio was $839.4 million (net of allowance of $17.8 million) at December 31, 2009.

(3) 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 impairments.

(5) Net carrying amount includes a $70,000 and $1.1 million allowance for lease receivable losses at December 31, 2010 and 2009, respectively.

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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 and make other-than-temporary impairment determinations 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
- whether, based upon our intent, it is more likely than not that we will sell the security before the recovery of the amortized cost basis.

At December 31, 2010 and 2009, we held $64.0 million and $44.5 million, respectively, (net of net unrealized losses of $19.3 million and $47.6 million, respectively) of CMBS recorded at fair value. To determine fair value, we use two methods, either a dealer quote or an internal valuation model, depending upon when the position was purchased and the current level of market activity. As of December 31, 2010 and 2009, $53.7 million and $29.7 million, respectively, of investment securities available-for-sale were valued using dealer quotes and $10.3 million and $14.8 million, respectively, were valued using the weighted average of the three measures discussed below.

For securities purchased in 2009 and thereafter, we obtain a quote from a dealer, which typically will be the dealer who sold us the security. We have been advised that, in formulating their quotes, dealers may use recent trades in the particular security, if any, market activity in similar securities, if any, or internal valuation models. These quotes are non-binding. As a result of how the dealers develop their quotes, the market illiquidity and low levels of trading activity as of December 31, 2009, we categorized all of these investment securities available-for-sale in Level 3 in the fair value hierarchy. Due to the increased level of trading activity in 2010, we moved some of these securities into Level 2 in the fair value hierarchy. We evaluate the reasonableness of the quotes we receive by applying our own valuation models. If there is a material difference between a quote we receive and the value indicated by our valuation models, we will evaluate the difference. As part of that evaluation, we will discuss the difference with the dealer, who may revise their quote based upon these discussions. Alternatively, we may revise our valuation models.

For investment securities available-for-sale purchased prior to 2009, we determine fair value based on taking a weighted average of the following three measures:

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

In the aggregate, we purchased our CMBS-private placement portfolio at a discount. At December 31, 2010 and 2009, the remaining discount to be accreted into income over the remaining lives of the securities was $26.1 million and $29.1 million, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair value.

During the year ended December 31, 2010, we recognized $26.6 million of other-than-temporary impairment on five positions that supported our CMBS investments bringing the combined fair value of these positions to $215,000. During the year ended December 31, 2009, we recognized $12.6 million of other-than-temporary impairment on two positions that supported our CMBS investments and one of our other-ABS investments bringing the combined fair value of these positions to $206,000. The assumed default of the underlying collateral positions in our cash flow model yielded a value that would result in less than a full recovery of our cost basis. The net impairment losses were recognized in earnings in the consolidated statements of operations. All of our other-than-temporary impairment losses are related to credit losses. While our remaining securities classified as available-for-sale have continued to decline in fair value on a net basis, we concluded that the decline continues to be temporary. We perform 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. Rating agency downgrades are considered with respect to our income approach when determining other-than-temporary impairment and, when inputs are stressed, the resulting projected cash flows reflect a full recovery of principal. We do not believe that any other of our securities classified as available-for-sale were other-than-temporarily impaired as of December 31, 2010.

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The following table summarizes our CMBS-private placement as of December 31, 2010 and 2009 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2010 Amortized Cost	December 31, 2010 Dollar Price	December 31, 2009 Amortized Cost	December 31, 2009 Dollar Price
Moody's Ratings Category:				
Aaa	$ –	–%	$ 11,690	64.70%
Aa1 through Aa3	3,345	66.90%	9,639	50.73%
A1 through A3	16,853	81.24%	4,826	56.14%
Baa1 through Baa3	24,763	67.26%	2,021	33.68%
Ba1 through Ba3	1,604	14.70%	10,443	100.00%
B1 through B3	4,678	93.56%	24,449	85.27%
Caa1 through Caa3	24,603	97.57%	12,832	98.71%
Ca through C	7,377	20.90%	16,210	73.68%
Total	$ 83,223	59.88%	$ 92,110	73.23%
S&P Ratings Category:				
AAA	$ –	–%	$ 5,997	59.97%
AA+ through AA-	–	–%	3,659	40.65%
A+ through A-	9,306	86.60%	6,544	62.75%
BBB+ through BBB-	31,072	70.91%	11,955	59.49%
BB+ through BB-	6,575	50.58%	7,847	78.76%
B+ through B-	–	–%	9,081	90.81%
CCC+ through CCC-	36,211	64.52%	47,027	83.54%
D	59	0.39%	–	
Total	$ 83,223	59.88%	$ 92,110	73.23%
Weighted average rating factor	3,653		2,971	

Structured notes. The following table summarizes our structured notes, which are classified as investment securities-trading, which are carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2010:				
Structured notes	$7,984	$9,739	$–	$17,723
Total	$7,984	$9,739	$–	$17,723

We purchased 26 securities and sold 13 securities during the year ended December 31, 2010, for a gain of $5.1 million. We held 13 investment securities-trading as of December 31, 2010. We did not hold any such investment at December 31, 2009.

Other Asset-Backed Securities. At December 31, 2010, we held two other ABS positions with a fair value of $23,000. At December 31, 2009, the positions had a fair value of $24,000. During the year ended December 31, 2009, we recognized other-than-temporary impairment of $5.7 million on one of the positions. The fair value of the ABS positions decreased due to a principal paydown received during the year ended December 31, 2010. These securities are 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 (4)
December 31, 2010:				
Whole loans, floating rate (1)	25	$ 441,372	LIBOR plus 1.50% to LIBOR plus 5.75%	May 2011 to January 2018
B notes, floating rate	2	26,485	LIBOR plus 2.50% to LIBOR plus 3.01%	July 2011 to October 2011
B notes, fixed rate	2	30,966	7.00% to 8.68%	July 2011 to April 2016
Mezzanine loans, floating rate	6	93,266	LIBOR plus 2.15% to LIBOR plus 3.00%	May 2011 to January 2013
Mezzanine loans, fixed rate (3)	5	53,545	8.14% to 11.00%	January 2016 to September 2016
Total (2)	40	$ 645,634		
December 31, 2009:				
Whole loans, floating rate (1)	22	$ 403,230	LIBOR plus 1.50% to LIBOR plus 4.40%	May 2010 to February 2017
Whole loans, fixed rate (1)	5	80,305	6.98% to 10.00%	May 2010 to August 2012
B notes, floating rate	2	26,479	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	7	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)	44	$ 747,677		

(1) Whole loans had $5.0 million and $5.6 million in unfunded loan commitments as of December 31, 2010 and 2009, respectively. These commitments are funded as the loans require additional funding and the related borrowers have satisfied the requirements to obtain this additional funding.

(2) The total does not include an allowance for loan losses of $31.6 million and $29.3 million recorded as of December 31, 2010 and 2009, respectively.

(3) Fixed rate mezzanine loan dates exclude a loan that matured in May 2010 and is in default and has been on non-accrual status as of December 31, 2010 and December 31, 2009, respectively..

(4) Maturity dates do not include possible extension options that may be available to the borrowers.

Subsequent to December 31, 2010, we entered into and completed sale agreements for two commercial real estate loans. One was a loan secured by an office tower in New York City that we sold at 75% of par, resulting in a loss of $5.1 million after writing off unamortized loan origination costs. The second loan was secured by a portfolio of office complexes throughout the United States that sold at 50% of par, resulting in a loss of $9.6 million of which $290,000 had been previously allocated as part of our general reserve. We classified both loans as loans held for sale as of December 31, 2010.

During the year ended December 31, 2010, we accepted a bankruptcy court-approved settlement on a portfolio of condominiums that had been in default since July 2009 and after receiving a settlement pay-down of $2.3 million, our loan balance was reduced to $5.0 million. After a review of the projected sale proceeds, we determined that a provision of $648,000 was needed and upon foreclosure, we have now classified the property as property available-for-sale with a fair value of $4.4 million at December 31, 2010.

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Bank Loans. At December 31, 2010, we held a total of $850.5 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 $51.9 million over our holdings at December 31, 2009. The increase in total bank loans was principally due to improved market prices for bank loans during the year ended December 31, 2010. 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, 2010.

The following table summarizes our bank loan investments as of December 31, 2010 and 2009 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2010		December 31, 2009	
	Amortized cost	Dollar price	Amortized cost	Dollar price
Moody's ratings category:				
Baa1 through Baa3	$ 27,262	98.94%	$ 38,419	98.09%
Ba1 through Ba3	432,153	97.27%	404,345	96.91%
B1 through B3	351,147	96.31%	355,456	96.33%
Caa1 through Caa3	20,879	95.73%	44,265	99.79%
Ca	7,062	100.00%	13,697	88.68%
No rating provided	21,960	96.02%	9,070	91.64%
Total	$ 860,463	96.88%	$ 865,252	96.67%
S&P ratings category:				
BBB+ through BBB-	$ 54,560	99.13%	$ 73,495	98.23%
BB+ through BB-	373,971	97.25%	353,595	97.11%
B+ through B-	360,581	96.21%	337,208	96.12%
CCC+ through CCC-	29,707	95.43%	42,198	96.65%
CC+ through CC-	1,633	100.18%	3,104	100.13%
C+ through C-	–	–%	–	–%
D	1,050	100.00%	8,602	95.91%
No rating provided	38,961	97.39%	47,050	94.85%
Total	$ 860,463	96.88%	$ 865,252	96.67%
Weighted average rating factor	2,061		2,131	

Asset-backed securities held-to-maturity. At December 31, 2010, we held a total of $25.9 million of ABS held-to-maturity held 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 $4.6 million over our holdings at December 31, 2009. The increase in total ABS held-to-maturity was principally due to the improved market prices and the purchase of $1.3 million par value of ABS held-to-maturity during the year ended December 31, 2010. The effects of the pricing improvement and additional purchases were partially offset by the sale of two securities that were sold due to credit rating deterioration.

During the year ended December 31, 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 in 2009.

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The following table summarizes our ABS held-to-maturity, at cost as of December 31, 2010 and 2009 (in thousands, except percentages). Dollar price is computed by dividing amortized cost by par amount.

	December 31, 2010		December 31, 2009	
	Amortized cost	Dollar price	Amortized cost	Dollar price
Moody's ratings category:				
Aa1 through Aa3	$ 2,766	85.40%	$ 2,854	82.89%
A1 through A3	7,625	79.02%	303	75.75%
Baa1 through Baa3	1,950	100.00%	–	–%
Ba1 through Ba3	2,503	93.57%	4,427	95.72%
B1 through B3	4,998	98.10%	4,319	97.63%
Caa1 through Caa3	9,194	99.16%	9,913	99.14%
Ca	–	–%	3,550	79.22%
No rating provided	–	–%	6,035	75.44%
Total	$ 29,036	91.08%	$ 31,401	88.77%
S&P ratings category:				
AA+ through AA-	$ 5,099	83.41%	$ –	–%
A+ through A-	5,292	78.96%	–	–%
BBB+ through BBB-	3,516	96.99%	–	–%
B+ through B-	3,062	97.98%	–	–%
No rating provided	12,067	98.57%	31,401	88.77%
Total	$ 29,036	91.08%	$ 31,401	88.77%
Weighted average rating factor	3,105		4,028	

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

	Amortized Cost (1)			
	Apidos I	Apidos III	Apidos Cinco	Total
December 31, 2010:				
Loans held for investment:				
First lien loans	$288,163	$236,142	$296,208	$820,513
Second lien loans	12,902	10,011	11,513	34,426
Subordinated second lien loans	163	122	–	285
Defaulted second lien loans	–	–	362	362
Total	301,228	246,275	308,083	855,586
First lien loans held for sale at fair value	2,822	–	1,205	4,027
Total	$304,050	$246,275	$309,288	$859,613
December 31, 2009:				
Loans held for investment:				
First lien loans	$284,564	$232,861	$295,457	$812,882
Second lien loans	11,507	9,096	10,657	31,260
Subordinated second lien loans	163	122	–	285
Defaulted first lien loans	4,511	5,579	1,685	11,775
Defaulted second lien loans	500	500	–	1,000
Total	301,245	248,158	307,799	857,202
First lien loans held for sale at fair value	4,064	2,077	1,909	8,050

Total	$305,309	$250,235	$309,708	$865,252

(1) All loans are senior and secured unless otherwise noted.

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

	December 31,	
	2010	2009
Leases, net of unearned income	$ 75,908	$ 1,397
Operating leases	17,900	–
Notes receivable	15,874	670
Subtotal	109,682	2,067
Allowance for lease losses	(70)	(1,140)
Total	$ 109,612	$ 927

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

We have the right to require LEAF Funding to repurchase credit impaired contracts or replace such contracts with performing contracts. LEAF Funding would have to repurchase or provide substitute contracts for each credit impaired contract at an amount equal to the discounted contract balance plus any overdue payments. The foregoing is limited to 5% of the aggregate discounted contract balance of all of the contracts sold by LEAF Funding to us.

Restricted cash. At December 31, 2010, we had restricted cash of $168.2 million, which consisted of $160.5 million of restricted cash in our five CDOs, $5.2 million of restricted cash in our leasing securitization and $2.5 million held in a margin account, related to our swap portfolio. At December 31, 2009, we had restricted cash of $85.1 million, which consisted of $80.5 million of restricted cash in our five CDOs and $4.6 million held in a margin account, related to our swap portfolio. The increase of $83.1 million is primarily related to paydowns, payoffs and sales of loans and to a lesser extent, CMBS during the year ended December 31, 2010 in our CRE CDOs. The majority of this cash had not been reinvested as of December 31, 2010.

Interest Receivable. At December 31, 2010, we had interest receivable of $6.3 million, which consisted of $6.3 million of interest on our securities, loans and lease receivables and $9,000 of interest earned on escrow and sweep accounts. 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 lease receivables and $9,000 of interest earned on escrow and sweep accounts. The increase of $576,000 is the result of an increase of $666,000 in interest receivable on our bank loan portfolio due to the increase in weighted average rate which increased as a result of fewer defaulted positions at December 31, 2010, and a $1.2 million increase in interest on structured notes which we did not hold as of December 31, 2009. This increase was partially offset by a $1.1 million decrease in interest receivable on our commercial real estate loan portfolio due to loan modifications which resulted in decreases in weighted average rates and a decrease of $174,000 on our CMBS portfolio due to $35.0 million of impaired CMBS at par being on non-accrual status as of December 31, 2010.

Other Assets. The following table summarizes our other assets as of December 31, 2010 and 2009 (in thousands):

	December 31,	
	2010	2009
Fixed assets	$ –	$ 1

Other receivables		1,374		555
Prepaid assets		590		612
Principal paydown		468		1,084
Total	$	2,432	$	2,252

Other assets increased $181,000 to $2.4 million as of December 31, 2010 from $2.3 million as of December 31, 2009. This increase resulted primarily from an increase of $819,000 in other receivables principally due to receivables on our leasing portfolio. There was no such portfolio at December 31, 2009. These increases were partially offset by a decrease of $616,000 in principal receivables on our bank loans portfolio due to the timing of when principal was due and received, and a $22,000 decrease in prepaid assets due to a decrease in our prepaid insurance and other prepaid administrative services.

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Hedging Instruments. Our hedges at December 31, 2010 and 2009 were fixed-for-floating interest rate swap agreements whereby we swapped the floating rate of interest on the liabilities we hedged for a fixed rate of interest. With interest rates at historically low levels and the forward curve projecting steadily increasing rates, we expect that the fair value of our hedges will modestly improve in 2011. We intend to continue to seek such hedges for our floating rate debt in the future. Our hedges at December 31, 2010 were as follows (in thousands):

	Benchmark rate	Notional value	Strike rate	Effective date	Maturity date	Fair value
Interest rate swap	1 month LIBOR	$ 12,965	4.63%	12/04/06	07/01/11	$ (282)
Interest rate swap	1 month LIBOR	12,150	5.44%	06/08/07	03/25/12	(759)
Interest rate swap	1 month LIBOR	12,750	5.27%	07/25/07	08/06/12	(971)
Interest rate swap	1 month LIBOR	34,255	4.13%	01/10/08	05/25/16	(2,309)
Interest rate swap	1 month LIBOR	1,681	5.72%	07/09/07	10/01/16	(161)
Interest rate swap	1 month LIBOR	1,880	5.68%	07/13/07	03/12/17	(350)
Interest rate swap	1 month LIBOR	81,556	5.58%	06/08/07	04/25/17	(7,603)
Interest rate swap	1 month LIBOR	1,726	5.65%	06/28/07	07/15/17	(159)
Interest rate swap	1 month LIBOR	3,850	5.65%	07/19/07	07/15/17	(355)
Interest rate swap	1 month LIBOR	4,023	5.41%	08/07/07	07/25/17	(343)
Total		$ 166,836	5.17%			$ (13,292)

In addition, we also had an interest rate cap agreement with a fair value of $60 and a notional amount of $14.8 million outstanding as of December 31, 2010 which reduced our exposure to variability in future cash flows attributable to LIBOR. The interest rate cap is a non-designated cash flow hedge and, as a result, we record the change in fair value through the consolidated statement 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%. The interest rate cap had a fair value of $45,000 as of December 31, 2009.

As of December 31, 2009, we had entered into hedges with a notional amount of $217.9 million and maturities ranging from February 2010 to July 2017. At December 31, 2009, the fair value on our interest rate swap agreements was ($12.8) million.

Equipment-backed Securitized Notes. In May 2010, we acquired Equipment Contract Backed Notes, Series 2010-2, issued by LEAF Funding 3, a $120.0 million transaction that provides financing for leases. The investments held by LEAF Funding 3 collateralize the debt it issued and, as a result, the investments are not available to us, our creditors or stockholders. LEAF Funding 3 issued a total of $120.0 million of senior notes at a weighted average price of $93.5 to unrelated investors generating proceeds of $112.2 million. We amortize the discount at issuance over the lives of the notes using the effective yield method, adjusted for the effects of estimated prepayments on the notes. We had $14.8 million of equity invested in LEAF Funding 3 as of December 31, 2010.

The equipment contract backed notes issued to investors by LEAF Funding 3 consist of the following classes: (i) $95.5 million of class A notes; (ii) $7.0 million of class B notes; (iii) $6.4 million of class C notes; (iv) $6.4 million of class D notes; and (v) $4.7 million of class E notes. All of the notes issued bear a fixed rate of interest 5.0%. The class A notes mature in May 2016 and the class B through E notes mature in December 2017. The balance of the Senior Notes after scheduled amortization was $102.0 million as of December 31, 2010 and we had $5.9 million of unamortized original issuance discounts, $1.1 million of unamortized debt issuance costs for a net basis of $95.0 million as of December 31, 2010.

Collateralized Debt Obligations. As of December 31, 2010, 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, $2.5 million of the Class J senior notes in November 2009, $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, an additional $250,000 of the Class J senior notes in January 2010, $7.5 million of Class B senior notes in June 2010 and $15.0 million of Class A-2 note in December 2010. 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, 2010, the notes issued to outside investors, net of repurchased notes, had a weighted average borrowing rate of 0.82%.

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, 2010, the notes issued to outside investors had a weighted average borrowing rate of 0.79%.

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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, an additional $20.0 million of Class A-1 senior notes in February 2010, $12.0 million of Class A-2 senior notes, $6.9 million of Class B senior notes, $7.7 million of Class C senior notes in April 2010, $7.5 million of Class D senior notes in June 2010 and $20.0 million of Class A-1 senior notes in July 2010. In addition, RREF 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $36.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2010, the notes issued to outside investors, net of repurchased notes had a weighted average borrowing rate of 1.33%.

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, 2010, the notes issued to outside investors had a weighted average borrowing rate of 0.75%.

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, 2010, the notes issued to outside investors had a weighted average borrowing rate of 0.87%.

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

In October 2009, we amended our unsecured junior subordinated debentures held by RCT I and RCT II with a total value outstanding of $51.5 million. The amendment provides for an interest rate increase of 2% (from LIBOR plus 3.95% to LIBOR plus 5.95%) on both issuances for a period of two years and a one-time restructuring fee of $250,000 in exchange for the waiver of financial covenants under our guarantee. The covenant waiver expires on January 1, 2012. The junior subordinated debentures debt issuance costs are included in borrowings in the consolidated balance sheets. We record interest expense on the junior subordinated debentures and amortization of debt issuance costs in our consolidated statements of operations. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2010 were $590,000 and $604,000, respectively. 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, 2010, were 6.25% and 6.24%, respectively and 6.18% and 6.19% at December 31, 2009, respectively. The additional cost is approximately $260,000 per quarter.

Secured Term Facility. In April 2010, Resource TRS entered into a loan and security agreement with The Bancorp Bank to finance the purchase of lease receivables. The maximum amount of the borrowing under this agreement was $6.5 million. Borrowings under this agreement bore interest at six percent (6%) per annum. The facility was repaid in full and was terminated on May 27, 2010. There were no such borrowings as of December 31, 2009.

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Financing Receivables

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

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

	Commercial Real Estate Loans	Bank Loans	Lease Receivables	Loans Receivable-Related Party	Total
December 31, 2010:					
Allowance for losses at January 1, 2010	$ 29,297	$ 17,825	$ 1,140	$ –	$ 48,262
Provision for loan loss	44,357	(1,348)	312	–	43,321
Loans charged-off	(42,037)	(13,861)	(1,432)	–	(57,330)
Recoveries	–	–	50	–	