

Resource Capital Corp.
Form 424B4
December 15, 2006
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Filed Pursuant to Rule 424(B)(4)
Registration File Number: 333-138990

PROSPECTUS

6,000,000 Shares
Common Stock

We are a commercial real estate specialty finance company that qualifies as a real estate investment trust, or REIT, for federal income tax purposes. We are externally managed and advised by Resource Capital Manager, Inc., an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI). Our common stock is listed on the New York Stock Exchange under the symbol RSO.

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

Investing in our common stock involves risks. See Risk Factors beginning on page 25 of this prospectus for a discussion of these risks.

	Per share	Total
Public offering price	\$ 16.5000	\$ 99,000,000
Underwriting discount	\$ 0.9075	\$ 5,445,000
Proceeds to us (before expenses)	\$ 15.5925	\$ 93,555,000

We have granted the underwriters an option to purchase up to an additional 900,000 shares of our common stock at the public offering price, less underwriting discounts and commissions, within 30 days after the date of this prospectus solely to cover over-allotments, if any.

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

Delivery of the shares of our common stock is expected to be made in book-entry form on or about December 20, 2006.

Citigroup Credit Suisse Friedman Billings Ramsey JPMorgan

The date of this prospectus is December 14, 2006

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

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including the information set forth in Risk Factors, for a more complete understanding of this offering. Except where the context suggests otherwise, the terms we, us and our refer to Resource Capital Corp. and its subsidiaries, Manager refers to Resource Capital Manager, Inc., our external manager and Resource America refers to Resource America, Inc. and its affiliated companies, including the Manager. Unless indicated otherwise, the information in this prospectus assumes no exercise by the underwriters of their option to purchase up to an additional 900,000 shares of our common stock solely to cover over-allotments, if any.

Our Company

We are a commercial real estate specialty finance company that qualifies as a real estate investment trust, or REIT, for federal income tax purposes. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of commercial real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

Our investments target the following asset classes:

Asset class

Commercial real estate-related assets

Principal investments

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

Residential real estate-related assets

Commercial mortgage-backed securities, which we refer to as CMBS

Residential mortgage-backed securities, which we refer to as ABS-RMBS

Commercial finance assets

Senior secured corporate loans, which we refer to as bank loans

Other asset-backed securities, which we refer to as other ABS, backed principally by small business and bank loans and, to a lesser extent, by consumer receivables

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Equipment leases and notes, principally small- and middle-ticket commercial direct financing leases and notes

Trust preferred securities of financial institutions

Debt tranches of collateralized debt obligations, which we refer to as CDOs

Private equity investments, principally issued by financial institutions.

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We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets and hedge interest rate risks. We generate revenues from the interest we earn on our commercial real estate-related assets, residential real estate-related assets and commercial finance assets. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income will depend on our ability to control these expenses relative to our revenue. In our commercial real estate loan portfolio, we use repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as a long-term financing source. In our ABS-RMBS, CMBS, other ABS, bank loans and equipment leases and notes, we use warehouse facilities as a short-term financing source and CDOs and, to a lesser extent, other term financing as a long-term financing source. We expect that our other term financing will consist of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs.

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

On March 8, 2005, we received net proceeds of \$214.8 million from a private placement of 15,333,334 shares of common stock. On February 10, 2006, we received net proceeds of \$27.3 million from our initial public offering of 4,000,000 shares of common stock. These shares included 1,879,200 shares sold by selling stockholders. As of September 30, 2006, we had invested 20.3% of our portfolio in commercial real estate-related assets, 48.2% in ABS-RMBS and 31.5% in commercial finance assets. As a result of the October 2, 2006 settlement of our agency ABS-RMBS portfolio, our portfolio composition after the third quarter has shifted so that, as of that date and giving effect to the sale, we had invested 30.3% of our portfolio in commercial real estate-related assets, 22.5% in ABS-RMBS and 47.2% in commercial finance assets.

We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. Credit quality refers to the probability that a loan will be repaid in a timely manner. In general, as credit quality decreases, yields increase to compensate for increased default risk. If we are unable to maintain the credit quality of our portfolio, we will be subject to increased default risk, including the risk of payment defaults. If we experience payment defaults, our revenues will be reduced and our costs, particularly costs we incur to enforce our rights with respect to defaulting assets, may increase, thereby reducing our earnings.

Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes. To illustrate, after giving effect to the agency ABS-RMBS portfolio settlement on October 2, 2006, our equity was invested 68.0% in commercial real estate-related assets, 21.7% in commercial finance assets and 10.3% in ABS-RMBS. We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. Investing in multiple asset classes does not reduce or eliminate many of the risks associated with our investment portfolio such as geographic concentration risk and credit risk. We may change our investment strategies and policies, and the percentage of assets that may be invested in each asset class, without a vote of our stockholders.

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Because we elected and qualified to be taxed as a REIT and intend to operate our business so as to be excluded from regulation under the Investment Company Act of 1940, as amended, we are required to invest at least 55% of our assets in qualifying real estate assets, such as whole pool certificates which represent the entire beneficial interest in an underlying pool of mortgage loans, A notes, certain B notes with foreclosure rights on the underlying mortgages, certain mezzanine debt that is the functional equivalent of second mortgage loans, mortgage loans and other liens on and interests in real estate. Therefore, the percentage of our assets we may invest in other mortgage-backed securities, or MBS, other B notes, other mezzanine debt, other ABS, bank loans, equipment leases and notes, trust preferred securities, private equity and other types of investments is limited, unless those investments comply with federal income tax requirements for REIT qualification and requirements for exclusion from Investment Company Act regulation.

Our Investment Portfolio

As of September 30, 2006, excluding the agency ABS-RMBS portfolio we agreed to sell on September 27, 2006 and settled on October 2, 2006, our investment portfolio consisted of the following (dollars in thousands):

	Amortized cost	Estimated fair value	Percent of our total investments ⁽¹⁾	Weighted average coupon ⁽¹⁾
Commercial real estate-related assets				
Whole loans	75,821	75,821	4.92%	8.50%
A notes	42,517	42,517	2.76%	6.64%
B notes	162,171	162,171	10.52%	8.55%
Mezzanine loans	159,146	159,146	10.32%	8.24%
CMBS	27,954	27,388	1.78%	5.53%
Total commercial real estate-related assets	467,609	467,043	30.30%	8.09%
Residential real estate-related assets				
ABS-RMBS	346,988	347,078	22.52%	6.87%
Total residential real estate-related assets	346,988	347,078	22.52%	6.87%
Commercial finance assets				
Bank loans	614,947	613,885	39.83%	7.73%
Other ABS	21,452	21,418	1.39%	6.97%
Equipment leases and notes	91,909	91,909	5.96%	8.13%
Total commercial finance assets	728,308	727,212	47.18%	7.75%
Total	\$ 1,542,905	\$ 1,541,333	100.00%	8.54%

(1) Based on estimated fair value.

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

Commercial real estate-related investments

Whole loans. We originate first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enable us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan, consisting of an A note, B notes, mezzanine loans or other participations, which we may hold or sell to third parties. We do not expect to obtain ratings on these investments until we aggregate and finance them through a

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CDO transaction. We expect our whole loan investments to have loan to value, or LTV, ratios of up to 85%. As of September 30, 2006, we held four whole loans with an estimated fair value of \$75.8 million, or 4.92% of our total investments. The loans had an original weighted average LTV ratio of 80.8%. These investments are consistent with our strategic target for this asset class.

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

As of September 30, 2006 we held two A notes with an estimated fair value of \$42.5 million, or 2.76% of our total investments. The loans had an original weighted average LTV ratio of 57.5%. These investments are consistent with our strategic target for this asset class.

Subordinate interests in whole loans (B notes). We invest in subordinated interests in whole loans, referred to as B notes, either directly originated or purchased from third parties. B notes are secured by a first mortgage and subordinated to the A note. The subordination of a B note is generally evidenced by an intercreditor or participation agreement between the holders of the related A note and the B note. B note lenders have the same obligations, collateral and borrower as the A note lenders, but are typically subordinated in recovering upon default. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our B note investments to have LTV ratios of between 55% and 80%.

As of September 30, 2006, we held ten B note investments with an estimated fair value of \$162.2 million, or 10.52% of our total investments. The loans had an original weighted average LTV ratio of 73.9%. These investments are consistent with our strategic target for this asset class.

Mezzanine financing. We invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our mezzanine investments to have LTV ratios of between 65% and 90%.

As of September 30, 2006, we held 14 mezzanine loans with an estimated fair value of \$159.1 million, or 10.32% of our total investments. The loans had an original weighted average LTV ratio of 79.8%. These investments are consistent with our strategic target for this asset class.

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

As of September 30, 2006, we had invested \$27.4 million on an estimated fair value basis, or 1.78% of our total investments, in CMBS. This portfolio had a weighted-average rating factor, or WARF, of 346, and a weighted average rating between Baa1 and Baa2 by Moody's and BBB by Standard and Poor's. WARF is the quantitative equivalent of Moody's traditional rating categories and is used by Moody's in its credit enhancement calculations for securitization transactions. Our strategy for this class targets a maximum WARF of 610. As of September 30, 2006, the CMBS we had purchased were consistent with our strategic target for this asset class.

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Residential real estate-related investments

ABS-RMBS. We invest in ABS-RMBS, which are securities that are secured by or evidence interests in a pool of residential mortgage loans. These securities may be issued by government sponsored agencies or other entities and may or may not be rated investment grade by rating agencies. The principal difference between ABS-RMBS and agency ABS-RMBS is that the mortgages underlying the ABS-RMBS do not conform to agency guidelines as a result of documentation deficiencies, high LTV ratios or credit quality issues. We expect that our ABS-RMBS will include loan pools with home equity loans that are secured by subordinate liens, as well as loan pools that are secured by first and second lien residential mortgage loans secured by the related mortgage properties. The underlying residential borrowers can be characterized as sub-prime borrowers with lower FICO scores, generally below 625, mid-prime borrowers with mid-range scores, generally between 626 and 675, or prime borrowers with the highest FICO scores, generally above 675. We expect that most of the ABS-RMBS in which we invest will be rated between AAA and Ba2 by Moody's and between AAA and BB by Standard and Poor's, although some of our investments may be rated only by Moody's.

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

As of September 30, 2006, excluding the agency ABS-RMBS portfolio we sold on September 27, 2006, which settled on October 2, 2006, we had invested \$347.1 million on a fair value basis, or 22.52% of our total investments, in ABS-RMBS with a weighted average original FICO score of 636. Our ABS-RMBS portfolio had a WARF of 410, or a weighted average rating between A2 and Ba2 by Moody's and between A+ and BB+ by Standard and Poor's, and an original LTV ratio of 79.92%. As of September 30, 2006, the ABS-RMBS we had purchased were consistent with our strategic target for this asset class.

Commercial finance investments

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

As of September 30, 2006, we had invested \$613.9 million on a fair value basis, or 39.83% of our total investments, in bank loans. This portfolio had a WARF of 2,143 or a weighted average rating between Ba1 and Caa1 by Moody's and between BBB- and CCC- by Standard & Poor's. As of September 30, 2006, the bank loans we had purchased were consistent with our strategic target for this asset class.

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

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As of September 30, 2006, we had invested \$21.4 million on a fair value basis, or 1.39% of our total investments, in other ABS. This portfolio had a WARF of 407 or a weighted average rating between Baa2 and Ba2 by Moody's and between BBB and BBB- by Standard & Poor's. As of September 30, 2006, the other ABS we had purchased were consistent with our strategic target for this asset class.

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

As of September 30, 2006, we held \$91.9 million on a fair value basis, or 5.96% of our total investments, of equipment leases and notes, net of unearned income.

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

As of September 30, 2006, we had no trust preferred security investments.

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

As of September 30, 2006, we had invested \$18.8 million in CDO transactions, which are included in other ABS. We currently expect to leverage our investments in CDOs in the range of 10 to 15 times.

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

As of September 30, 2006, we had no private equity investments.

The table below summarizes our borrowings as of September 30, 2006, excluding borrowings repaid upon the settlement of our agency ABS-RMBS portfolio on October 2, 2006 (dollars in thousands):

	Outstanding borrowings	Weighted average borrowing rate	Weighted average remaining maturity	Value of collateral
Repurchase agreements	\$ 53,906	6.57%	18 days	\$ 71,462
CDOs ⁽¹⁾	1,206,751	5.85%	24.8 years	1,349,594
Secured term facility	87,080	6.34%	3.5 years	91,909
Unsecured junior subordinated debentures ⁽²⁾	51,548	9.39%	29.9 years	
Total	\$ 1,399,285	6.04%		\$ 1,512,965

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- (1) Amount represents principal outstanding of \$1.2 billion less unamortized issuance costs of \$18.7 million as of September 30, 2006.
- (2) Amount represents junior subordinated debentures issued to Resource Capital Trust I in connection with its issuance of trust preferred securities in May 2006 and to RCC Trust II in connection with its issuance of trust preferred securities in September 2006.

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Business Strengths

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

Deep experience in targeted asset classes. Through the Manager and Resource America, we have access to a team of 71 investment professionals that has broad experience originating, investing in, managing and financing commercial and residential real estate-related assets and commercial finance assets.

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

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

Significant experience in asset-liability management. Since 2002, Resource America has sponsored 22 CDOs with an original cost of approximately \$9.2 billion in assets, including our four CDOs which originally financed approximately \$1.4 billion of our assets. In addition, the Manager's and Resource America's professionals have significant experience in using hedging instruments to manage the interest rate risk associated with the asset classes we invest in, and managed \$151.3 million in notional amount of interest rate swaps, \$61.0 million in notional amount of forward interest rate swaps and an interest rate cap agreement with a notional amount of \$15.0 million for us as of September 30, 2006.

Summary Risk Factors

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

We have a limited operating history and limited experience operating as a REIT. We may not be able to execute our investment strategies or achieve our investment objectives, and the value of your investment could decline substantially.

Our ability to achieve returns for our stockholders depends on our ability both to generate sufficient cash flow to pay distributions and to achieve capital appreciation, and we cannot assure you that we will do either.

We depend upon the Manager, Resource America and their key personnel because we do not have our own personnel. We may not find suitable replacements if they terminate our management agreement with them or if key personnel are no longer available to us.

There are potential conflicts of interest in our relationship with the Manager, which could result in decisions that are not in the best interests of our stockholders. Our management agreement was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as

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if it had been negotiated with an unaffiliated third party. In addition, affiliates of the Manager may sponsor or manage other investment vehicles in the future with an investment focus similar to ours, which could result in us competing for access to the benefits that our relationship with the Manager provides to us.

The Manager's base management fee is tied to the amount of our equity and not to the performance of our investment portfolio, which could reduce its incentive to seek profitable opportunities for our portfolio.

The Manager's incentive compensation is based on our financial performance, which may lead it to place emphasis on the short-term maximization of net income. This could result in increased risk to the value of our investment portfolio.

We may not terminate our management agreement without cause until after March 31, 2008. Upon termination without cause after this initial term, or upon a failure to renew the management agreement, we must pay the Manager a substantial termination fee. These and other provisions in our management agreement make termination without cause or non-renewal difficult and costly.

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

We may change our investment strategy without stockholder consent, which could result in investments that are different, and possibly more risky, than those described in this prospectus.

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

Subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we intend to invest in mezzanine obligations, qualifying B notes, subordinated tranches of CMBS, other ABS, trust preferred securities and private equity investments, which may be subject to a greater risk of loss than senior obligations or whose value may be sensitive to fluctuations in interest rates.

We leverage our investments and are not limited in the amount of leverage we may use. As of September 30, 2006, our outstanding indebtedness, including our agency ABS-RMBS portfolio, was \$2.1 billion and our leverage ratio was 9.2 times. Our use of leverage may have the effect of increasing losses when economic conditions are unfavorable, and may reduce cash available for distribution to our stockholders.

The yields on our investments may be sensitive to changes in prevailing interest rates and changes in prepayment rates. Moreover, we may not be able to execute our match-funding strategy successfully. As a consequence, an increase in our borrowing costs relative to the interest we receive may result in reduced earnings and reduced cash available for distribution to our stockholders.

Fluctuations in interest rates may reduce the market value of our investments and may result in poorer overall investment performance than if we had not engaged in any hedging transactions.

Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs typically may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.

Our hedging transactions may not insulate us from interest rate risk.

While we use hedging to mitigate some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates and prepayment rates. There are practical limitations to our ability to insulate our portfolio from all of the negative consequences associated with changes in short-term interest rates while still seeking to provide attractive returns on our portfolio.

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The assets in which we invest are subject to the credit risk of the underlying collateral. In the event of default, the amount we may be able to realize from the underlying collateral or additional credit support may be insufficient for us to fully recover our investment.

Credit Suisse Securities (USA) LLC, one of our underwriters, directly and indirectly, has entered into repurchase agreements with us under which \$619.4 million was outstanding at September 30, 2006. Credit Suisse International, an affiliate of Credit Suisse Securities (USA) LLC, has entered into four interest rate swaps with us between July 27, 2006 and September 29, 2006 in an aggregate amount of \$100.7 million. We intend to use the net proceeds of this offering to repay a portion of our indebtedness under our repurchase agreements with Credit Suisse Securities (USA) LLC. These circumstances create a potential conflict of interest because certain underwriters have interests in the successful completion of this offering beyond the underwriting discounts and commissions they will receive.

We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future. If we make distributions from uninvested offering proceeds, or borrow to make distributions, our future earnings and cash available for distribution may be reduced from what they otherwise would have been.

Our charter and bylaws, and the Internal Revenue Code provisions regarding REIT qualification, contain provisions that may inhibit potential acquisition bids that you and other stockholders may consider favorable.

If we fail to qualify as a REIT and statutory relief provisions are not available, we will be subject to income tax at regular corporate rates, which could reduce the amount of cash available for distribution to our stockholders and reduce the value of our common stock.

The REIT qualification rules impose limitations on the types of investments and activities which we may undertake, including limitations on our use of hedging transactions and derivatives, and these limitations may, in some cases, preclude us from pursuing the most economically beneficial investment alternatives.

Dividends paid by REITs generally do not qualify for the reduced tax rates for individuals applicable to qualified dividend income currently in effect for taxable years beginning before December 31, 2008.

If our CDO issuers that are taxable REIT subsidiaries are subject to federal income tax at the entity level, it would greatly reduce the amounts those entities would have available to distribute to us and to pay their creditors.

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

Business Strategy

Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives. The core components and values of our business strategy are:

Disciplined credit underwriting and active risk management. The core of our investment process is credit analysis and active risk management. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes, and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stresses. Resource America actively monitors our investments for early detection of troubled and deteriorating securities and attempts to mitigate the severity of any losses on defaults of our assets.

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Investment in higher-yielding assets. Our portfolio is and will be substantially comprised of assets such as mezzanine loans, B notes, ABS-RMBS and CMBS rated below AAA, and bank loans, which generally have higher yields than more senior or more highly-rated obligations. In line with this strategy, we recently sold our portfolio of agency ABS-RMBS and redeployed the net proceeds into higher yielding assets. Depending upon relative yields we may reinvest in agency ABS-RMBS in the future.

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

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

Active management of interest rate risk and liquidity risk. We finance a substantial portion of our portfolio investments on a long-term basis through borrowing strategies, such as CDOs, that seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. We also use derivative instruments such as interest rate swaps and interest rate caps to manage the interest rate risk associated with the asset classes in which we invest.

The Manager

We are externally managed and advised by the Manager, an indirect wholly-owned subsidiary of Resource America (NASDAQ: REXI), with whom it shares personnel. We do not have any ownership interest in the Manager. The Manager was formed in January 2005. It does not currently provide management or advisory services to other entities or clients, although our management agreement does not restrict it from doing so, except that it may not advise any new REIT that invests primarily in MBS in the United States. Resource America is a proprietary asset management company in the structured finance, real estate, and equipment finance sectors, with approximately \$12.1 billion of assets under management in these sectors at September 30, 2006, of which approximately \$8.3 billion were CDO assets on a cost basis. We do not control the assets or personnel of Resource America. Under our management agreement with the Manager and Resource America, the Manager is responsible for providing us with all management and support personnel and services necessary for our day-to-day operations. Neither we nor the Manager expect to have any employees of our own, nor does either of us expect to have any independent officers, although our chief financial officer is exclusively dedicated to our operations. We will, therefore be entirely dependent upon the Manager and Resource America for personnel and administrative infrastructure. To provide its services, the Manager draws upon the expertise and experience of Resource America which, as of September 30, 2006, had 219 employees involved in asset management, including 71 asset management professionals and 148 asset management support personnel. Resource America conducts its activities through the following subsidiaries:

Resource Real Estate, Inc. originates, finances and manages investments in real estate and real estate loans. As of September 30, 2006, Resource Real Estate had a team of 22 asset management professionals and nine asset management support personnel, including eight investment professionals who are presently exclusively dedicated to our operations, managing approximately \$883.7 million of commercial and multi-family real estate assets, of which \$439.7 million were managed on our behalf.

Ischus Capital Management, LLC invests in, finances, structures and manages ABS-RMBS, CMBS and other ABS. As of September 30, 2006, Ischus had a team of eight asset management professionals and three asset management support personnel managing over \$4.4 billion of MBS and other ABS on a cost basis, of which approximately \$1.2 billion was managed on our behalf, including \$395.7 million of

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assets on a cost basis that were financed through Ischus CDO II, which closed July 27, 2005 and in which we own 100% of the equity. The Ischus CDO II equity interests are subordinate in right of payment to all other securities issued by it.

Apidos Capital Management, LLC invests in, finances and manages bank loans. As of September 30, 2006, Apidos had a team of 11 asset management professionals and three asset management support employees who managed approximately \$2.0 billion of bank loans on a cost basis, of which \$614.9 million were managed on our behalf, all of which were financed through Apidos CDO I, which closed August 4, 2005, and Apidos CDO III, which closed May 9, 2006. The Apidos CDO I and Apidos CDO III equity interests are subordinate in right of payment to all other securities issued by the CDO.

Trapeza Capital Management, LLC, a joint venture between Resource America and an unaffiliated third party, originates, structures, finances and manages trust preferred securities of banks and other financial institutions. As of September 30, 2006, Trapeza managed or co-managed over \$4.2 billion of trust preferred securities on a cost basis, of which \$3.5 billion were held by ten CDOs. Resource America had four asset management professionals and three asset management support personnel dedicated to Trapeza's operations as of September 30, 2006.

LEAF Financial Corporation originates, manages and services small- and middle-ticket equipment and note receivable assets. LEAF Financial had 24 asset management professionals and 93 asset management support personnel at September 30, 2006 managing approximately \$612.7 million in book value of equipment leasing and note receivable assets, of which \$91.9 million was managed on our behalf.

The Manager's principal office is located at 712 Fifth Avenue, 10th Floor, New York, New York 10019.

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

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

Our management agreement was negotiated between related parties and its terms, including fees payable and the termination provisions, may not be as favorable to us as if it had been negotiated at arm's length with an unaffiliated third party.

The Manager and Resource America are permitted to invest in, and to manage entities that invest in, asset classes that are the same as or similar to our targeted asset classes, except that they may not raise capital for, sponsor or advise any new publicly-traded REIT that invests primarily in MBS in the United States. In addition, our officers, other than our chief financial officer, and the employees of Resource America who provide services to us, are not required to work full time on our affairs and anticipate devoting significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.

Our management agreement does not prohibit us from entering into any investment opportunity in which the Manager or Resource America has an interest. We currently own 100% of the equity interests in four CDOs structured for us by the Manager and we anticipate that we will invest in the equity portions of future CDOs structured for us by the Manager. We may also invest in real estate loans and equipment leases and notes originated and managed by the Manager and Resource America. A conflict of interest may arise between us and the Manager and Resource America with respect to the terms upon which we would make such an investment. In the event that any such investment opportunity is made available to us, the transaction will require the approval of a majority of our independent directors.

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We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers and employees, as well as employees of Resource America who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us.

The compensation we pay to the Manager consists of both a base management fee that is not tied to our performance and an incentive management fee that is based entirely on our performance. The risk of the base management fee component is that it may not provide sufficient incentive to the Manager to seek to achieve attractive returns for us. The risk of the incentive fee component is that it may cause the Manager to place undue emphasis on the maximization of short-term net income at the expense of other criteria, such as preservation of capital, in order to achieve a higher incentive fee. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it. Any such shares received would have the benefit of registration rights.

Termination of the management agreement without cause is difficult and costly.

The Manager does not assume any responsibility beyond the duties specified in the management agreement and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. The Manager, Resource America, their directors, officers, managers, employees and affiliates will not be liable to us, our directors or our stockholders for, and we have agreed to indemnify them for all claims and damages arising from, acts or omissions performed in good faith in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. As a result, we could experience poor performance or losses for which the Manager would not be liable. The Manager, Resource America and their affiliates have agreed to indemnify us, our directors and officers with respect to all claims and damages arising from acts of the Manager, Resource America or their affiliates constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement or any claims by employees of the Manager, Resource America or their affiliates relating to the terms and conditions of their employment. The Manager and Resource America carry directors' and officers' insurance.

Resolution of Potential Conflicts of Interest in Allocation of Investment Opportunities

The Manager and Resource America must offer us the right to consider all investments they identify that are within the parameters of our investment strategies and policies. For all potential investments other than in equipment leases and notes, if the Manager and Resource America identify an investment that is appropriate both for us and for one or more other investment programs managed by them, but the amount available is less than the amount sought by all of their investment programs, they will allocate the investment among us and such other investment programs in proportion to the relative amounts of the investment sought by each. If the portion of the investment allocable to a particular investment program would be too small for it to be appropriate for that investment program, either because of economic or market inefficiency, regulatory constraints, such as REIT qualification or exclusion from regulation under the Investment Company Act, or otherwise, that portion will be reallocated among the other investment programs. Investment programs that do not receive an allocation will

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have preference in future investments where investment programs are seeking more of the investment than is available so that, on an overall basis, each investment program is treated equitably.

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

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

which investment program has been seeking investments for the longest period of time;

whether the investment program has the cash required for the investment;

whether the amount of debt to be incurred with respect to the investment is acceptable for the investment program;

the effect the investment will have on the investment program's cash flow;

whether the investment would further diversify, or unduly concentrate, the investment program's investments in a particular lessee, class or type of equipment, location or industry; and

whether the term of the investment is within the term of the investment program.

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

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

We will not be permitted to invest in any investment fund or CDO structured, co-structured or managed by the Manager or Resource America other than those structured, co-structured or managed on our behalf. The Manager and Resource America will not receive duplicate management fees from any such investment fund or CDO to the extent we invest in it.

We will not be permitted to purchase investments from, or sell investments to, the Manager or Resource America, except that, with certain exceptions, we may purchase investments originated by those entities within 60 days before our investment.

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

Our Financing Strategy

We use leverage to finance our portfolio with the objective of increasing potential returns to our stockholders. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage. We intend to use match funding to mitigate interest rate risk and liquidity risk. Match funding is the financing of our investments on a basis where the maturity and repricing dates of the investments approximates the maturity and repricing dates of the borrowings used to finance the investments. We intend to accumulate investments in warehouse and repurchase facilities and, upon our acquisition of the assets in those facilities, match fund them on a long-term basis with CDOs. When these CDOs close, the accumulated assets are transferred to them and we purchase 100% of their

outstanding equity. These equity interests are subordinated in right of payment to all other securities issued by the CDOs.

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While we may use other forms of term financing, such as long-term match funded financing provided through bank financing and asset-backed financing programs, we do not expect that they will be a significant part of our financing structure. In addition, we have used, and may continue to use, other sources of long-term debt and hybrid debt/equity capital, including trust preferred securities. For any period during which our investment portfolio and related borrowings are not match funded, we may be exposed to the risk that our investment portfolio will reprice more slowly than the borrowings that we use to finance a significant portion of our investment portfolio. Increases in interest rates under these circumstances may significantly reduce the net interest income that we earn on our investment portfolio. We financed our agency ABS-RMBS through repurchase agreements and used derivatives such as interest rate swaps and interest rate caps as a means of mitigating our interest rate risk on forecasted interest expense associated with those same repurchase agreements. We also intend to use repurchase agreements as short-term financing for our commercial real estate loan portfolio before securing long-term-financing through a CDO.

Management Agreement

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

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

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

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

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

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

the dissolution of the Manager; and

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

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

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

Fee	Summary description
<i>Base management fee</i>	<p>Payable monthly in arrears in an amount equal to 1/12 of our equity, as defined in the management agreement, times 1.5%.</p>
<i>Incentive fee</i>	<p>Payable quarterly in an amount equal to the product of:</p> <p style="padding-left: 40px;">25% of the dollar amount by which</p> <p style="padding-left: 40px;">our net income, determined in accordance with generally accepted accounting principles, or GAAP, before non-cash equity compensation expense and incentive compensation but after the base management fee, for the quarter per common share, based on the weighted average number of common shares outstanding for the quarter,</p> <p style="padding-left: 40px;">exceeds an amount equal to</p> <p style="padding-left: 40px;">the weighted average of \$15.00, the price per share of the common shares in our March 2005 private offering and our February 2006 initial public offering, and the prices per common share in any subsequent offerings by us, in each case at the time of issuance, multiplied by</p> <p style="padding-left: 40px;">2.00% or</p> <p style="padding-left: 40px;">0.50% plus one-fourth of the average 10-year Treasury Rate for such quarter;</p> <p style="padding-left: 40px;">multiplied by the weighted average number of common shares outstanding during the quarter.</p> <p>The calculation of incentive compensation will be adjusted to exclude one-time events pursuant to changes in GAAP as well as non-cash charges after discussion between the Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.</p> <p>The Manager will receive at least 25% of its incentive fee in the form of shares of our common stock, and, at the Manager's option, it may receive up to 100% of its incentive fee in the form of shares of our</p>

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common stock. The Manager has the right in its discretion to allocate these shares to its officers, employees and other individuals who provide services to it, but the Manager has agreed not to make any allocations before the first anniversary of the date of grant.

Expense reimbursement

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

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

From March 8, 2005, the date we commenced operations, through December 31, 2005, the Manager earned base management fees of approximately \$2.7 million, incentive compensation fees of \$344,000, and received expense reimbursements of \$797,000. For the nine months ended September 30, 2006, the Manager earned base management fees of approximately \$2.7 million, incentive compensation fees of \$432,000, and received expense reimbursements of \$821,000.

Distribution Policy

To maintain our qualification as a REIT under the Internal Revenue Code, we intend to make regular quarterly distributions to our stockholders of at least 90% of our REIT taxable income, which is determined as of the close of our taxable year. Further, to avoid any REIT level corporate income tax and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net taxable income. On September 19, 2006, our board of directors declared a quarterly distribution of \$6.6 million, or \$0.37 per share of our common stock, payable on October 13, 2006 to stockholders of record on September 29, 2006. Our GAAP net loss for the quarter ended September 30, 2006 was \$2.4 million and our estimated REIT taxable income was \$9.2 million. On December 8, 2006, our board of directors declared a regular quarterly distribution of \$6.8 million, or \$0.38 per share of our common stock, and a special distribution of \$891,000, or \$0.05 per share of our common stock. These distributions will be payable on January 4, 2007 to stockholders of record on December 15, 2006. The special distribution relates to hedging gains realized during 2006 and is being made so that we distribute at least 90% of our ordinary REIT taxable income. Purchasers in this offering will not participate in either the quarterly distribution or the special distribution.

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

Up to 20% of the value of a REIT's assets may consist of investments in the securities of one or more taxable REIT subsidiaries, which we refer to as a TRS. A domestic TRS may retain its net income, and its earnings are subject to the 90% distribution requirement for REIT qualification only to the extent that the TRS actually distributes its earnings to the REIT. However, a foreign TRS, such as Apidos CDO I and Apidos CDO III, generally is deemed to distribute its earnings to the REIT on an annual basis for federal income tax purposes, regardless of whether it actually distributes its earnings. The net income of a domestic TRS, such as Resource TRS, is subject to federal income tax at regular corporate rates, whether such income is retained or distributed to the REIT. We have one domestic TRS, Resource TRS, Inc., which had no operations or assets at September 30, 2006.

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We anticipate that our distributions generally will be taxable as ordinary income to our stockholders. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits for

federal income tax purposes, such distributions would generally be considered a return of capital for federal income tax purposes. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain. Income as computed for purposes of these tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

Exclusion from Regulation under the Investment Company Act

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

We believe that RCC Real Estate, Inc., the subsidiary that as of September 30, 2006 held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, which we refer to as qualifying real estate assets. Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued and does not intend to issue redeemable securities.

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

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

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assets or miscellaneous assets, as appropriate. We do not expect that investments in non-whole pool CMBS, CDOs, other ABS, bank loans, equipment leases and notes, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage

loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

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

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

Moreover, we must ensure that Resource Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We will do so by monitoring the value of our interests in our subsidiaries. At all times, we must ensure that Resource Capital Corp. meets the 40% test. Our interest in RCC Real Estate does not constitute an investment security for purposes of the 40% test, but our 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 will monitor the value of our interest in Resource TRS for tax purposes as well; the applicable tax rules require us to ensure that the total value of the stock and other securities of Resource TRS and any other TRS held directly or indirectly by us does not exceed 20% of the value of our total assets. These requirements may limit our flexibility in acquiring assets in the future.

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

Qualification as a REIT

We elected to be taxed as a REIT commencing with our taxable year ended December 31, 2005. To qualify as a REIT, we must meet various tax law requirements, including, among others, requirements relating to the nature of our assets, the sources of our gross income, the timing and amount of distributions that we make and the composition of our stockholders. As a REIT, we generally are not subject to federal income tax on our net taxable income that we distribute to our stockholders on a current basis. If we fail to qualify as a REIT in any taxable year and are not eligible for specified relief provisions, we will be subject to federal income tax at regular

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corporate rates, and we may be precluded from qualifying as a REIT for the four taxable years following the year during which we lost our qualification. Further, even to the extent that we qualify as a REIT, we will be subject to tax at normal corporate rates on net income or capital gains not distributed to our stockholders, and we may be subject to other taxes, including payroll taxes, and state and local income, franchise, property, sales and other taxes. Moreover, our domestic TRSs, including Resource TRS, are subject to federal income taxation and to various other taxes. Any dividends received from us, with limited exceptions, will not be eligible for taxation at the preferred rates applicable to qualified dividend income currently in effect for taxable years beginning before December 31, 2008 that apply to dividends received by individuals, trusts and estates from taxable corporations.

Our Formation and Structure

We were organized on January 31, 2005 as a Maryland corporation. We completed a private offering of common stock in March 2005 and our initial public offering of common stock in February 2006. Resource America, the corporate parent of the Manager, and entities affiliated with it purchased an aggregate of 1,900,000 shares of our common stock in the two offerings. 1,800,000 of the shares purchased by Resource America are held by Resource Capital Investor, Inc., a wholly owned subsidiary of Resource America. The remaining 100,000 shares purchased by Resource America are held by the Manager. We granted to the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 per share, of which 344,079 shares of restricted stock and 649,500 options to purchase shares of our common stock were allocated to persons who are directors, officers and employees of the Manager or of Resource America providing services through the Manager.

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

Pursuant to the management agreement by and among us, the Manager and Resource America, we paid to the Manager 14,076 common shares as of September 30, 2006. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended December 31, 2005 and nine months ended September 30, 2006. As of September 30, 2006, Resource America, the Manager and their affiliates, including our officers and directors, collectively owned 2,702,200 shares of our common stock, representing 13.5% of our outstanding shares of common stock, and had warrants and options to purchase an additional 814,371 shares of our common stock representing an additional 4.1% of our outstanding shares of common stock, in each case assuming all warrants and options are exercised.

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

Our Corporate Information

Our principal office is located at 712 Fifth Avenue, 10th Floor, New York, New York 10019 and our phone number is (215) 546-5005. Our website is located at www.resourcecapitalcorp.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the SEC.

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

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- (1) Includes options to purchase 2,166 shares of our common stock, 921 shares of restricted stock granted to the manager at the completion of our March 2005 private offering and unallocated to its directors, officers and employees or directors, officers and employees of Resource America and 14,076 shares of common stock paid to the Manager as part of its incentive compensation.
- (2) We formed RCC Real Estate to hold our real estate-related assets and RCC Commercial to hold our commercial finance and other assets. We formed Resource TRS to hold assets, such as equipment leases and notes, non-qualifying hedges and equity interests in CDOs, to the extent necessary to assure our compliance with the gross income and asset tests applicable to REITs.
- (3) The equity interests we own are subordinate in right of payment to all other securities issued by the CDO. Apidos CDO I and Apidos CDO III are TRSs. Ischus CDO II and Resource Real Estate Funding CDO 2006-1 are qualified REIT subsidiaries.
- (4) Resource Real Estate Funding CDO 2006-1 Investor, Ltd. owns 100% of the preference shares and common equity of Resource Real Estate Funding CDO 2006-1.
- (5) Includes options to purchase 649,500 shares of our common stock and 344,079 shares of restricted stock transferred by the Manager.

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The Offering

Common stock offered by us	6,000,000 shares
Common stock to be outstanding after this offering	23,821,434 shares ⁽¹⁾
Use of proceeds	We intend to use the net proceeds of this offering to repay outstanding indebtedness under repurchase agreements.
New York Stock Exchange Symbol	RSO
Ownership and transfer restrictions	In order to assist in complying with requirements that limit the concentration of ownership of a REIT imposed by the Internal Revenue Code, our charter generally prohibits any stockholder from beneficially or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of the outstanding shares of our capital stock. Our board may, in its sole discretion, waive the 9.8% ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. We have granted waivers to Omega Advisors, Inc., in its capacity as the manager of funds and investment accounts, and to Resource America. Omega's and Resource America's ownership limit has been set at 15% of our outstanding capital stock in the aggregate. Our board may reduce each of these ownership limits in its discretion; however, any such reduction will not be effective as to shares then owned by Omega's funds and accounts or by Resource America in excess of the reduced limit.

Our charter also prohibits any person from beneficially or constructively owning capital stock such that we would be deemed to be closely held under the Internal Revenue Code, would have our capital stock being beneficially owned by fewer than 100 persons, or would otherwise cause us to fail to qualify as a REIT.

(1) Based on number of shares of our common stock outstanding on December 13, 2006. Includes 345,000 shares of restricted stock granted to Resource Capital Manager upon completion of our March 2005 private offering. Does not include options to purchase 651,666 shares of our common stock at an exercise price of \$15.00 that we granted to Resource Capital Manager at the same time. Resource Capital Manager has the right in its discretion to allocate these shares and options to its officers, employees and other individuals who provide services to it and has so allocated 344,079 shares of restricted stock and 649,500 options to purchase our common stock. Also includes (i) an aggregate of 8,224 shares of common stock granted to our independent directors under our stock incentive plan and (ii) 14,076 shares of common stock granted to Resource Capital Manager as incentive compensation under our management agreement. Also does not include 328,443 shares of our common stock available for future grant under our stock incentive plan. See Management 2005 Stock Incentive Plan.

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

	As of and for the nine months ended September 30, 2006 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to September 30, 2005 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005	As of and for the three months ended September 30, 2006 (unaudited)	As of and for the three months ended September 30, 2005 (unaudited)
Consolidated Income Statement Data:					
Revenues:					
Net interest income:					
Interest income	\$ 103,477	\$ 34,690	\$ 61,387	\$ 39,148	\$ 21,596
Interest expense	78,576	23,736	43,062	30,855	15,595
Net interest income	24,901	10,954	18,325	8,293	6,001
Other revenue:					
Net realized (loss) gain on investments	(8,853)	178	311	(8,314)	192
Other income	391			384	
Total other (loss) revenue	(8,462)	178	311	(7,930)	192
Expenses:					
Management fee expense-related party	3,147	1,839	3,012	917	822
Equity compensation expense-related party	1,620	1,873	2,709	798	836
Professional services	1,266	344	516	480	222
Insurance	372	273	395	126	122
General and administrative	1,220	795	1,096	443	415
Total expenses	7,625	5,124	7,728	2,764	2,417
Net income (loss)	\$ 8,814	\$ 6,008	\$ 10,908	\$ (2,401)	\$ 3,776
Net income (loss) per share basic	\$ 0.51	\$ 0.39	\$ 0.71	\$ (0.14)	\$ 0.25
Net income (loss) per share diluted	\$ 0.51	\$ 0.39	\$ 0.71	\$ (0.14)	\$ 0.24
Weighted average number of shares outstanding basic	17,261,091	15,333,334	15,333,334	17,585,171	15,333,334
Weighted average number of shares outstanding diluted	17,388,566	15,458,133	15,405,714	17,585,171	15,458,133

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	As of and for the nine months ended September 30, 2006 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to September 30, 2005 (unaudited)	As of and for the period from March 8, 2005 (date operations commenced) to December 31, 2005	As of and for the three months ended September 30, 2006 (unaudited)	As of and for the three months ended September 30, 2005 (unaudited)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 13,505	\$ 23,444	\$ 17,729	\$ 13,505	\$ 23,444
Restricted cash	29,054	79,098	23,592	29,054	79,098
Receivables on investment securities sold	753,195			753,195	
Available-for-sale securities, pledged as collateral, at fair value	395,844	1,413,602	1,362,392	395,844	1,413,602
Available-for-sale securities, at fair value		35,503	28,285		35,503
Loans	1,054,602	402,564	569,873	1,054,602	402,564
Total assets	2,369,379	2,002,546	2,045,547	2,369,379	2,002,546
Repurchase agreements (including accrued interest of \$1,012, \$1,128, \$2,104, \$1,012 and \$1,128)	770,167	1,059,736	1,068,277	770,167	1,059,736
CDOs (net of debt issuance costs of \$18,730, \$10,371, \$10,093, \$18,730 and \$10,371)	1,206,751	679,129	687,407	1,206,751	679,129
Warehouse agreements		35,255	62,961		35,255
Secured term facility	87,080			87,080	
Unsecured revolving credit facility			15,000		
Unsecured junior subordinated debentures held by unconsolidated trusts that issued trust preferred securities	51,548			51,548	
Total liabilities	2,139,392	1,788,764	1,850,214	2,139,392	1,788,764
Total stockholders' equity	229,987	213,782	195,333	229,987	213,782
Other Data:					
Dividends declared per common share	\$ 1.06	\$ 0.20	\$ 0.86	\$ 0.37	\$ 0.20

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RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We currently leverage our portfolio through securitizations, including CDOs, repurchase agreements, secured term facilities, warehouse facilities, issuance of trust preferred securities, bank credit facilities and other forms of borrowing. We are not limited in the amount of leverage we may use. As of September 30, 2006, our outstanding indebtedness was \$2.1 billion and our leverage ratio was 9.2 times. Excluding borrowings repaid upon the sale of our agency ABS-RMBS portfolio, which we agreed to sell on September 27, 2006 and settled on October 2, 2006, our outstanding indebtedness was \$1.4 billion and our leverage ratio was 6.1 times. The amount of leverage we use will vary depending on the availability of credit facilities, our ability to structure and market securitizations, the asset classes we leverage and the cash flows from the assets being financed. Our use of leverage subjects us to risks associated with debt financing, including the risks that

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

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

our investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing we obtain will not be as favorable as the terms of existing financing. If we are unable to secure refinancing on acceptable terms, we may be forced to dispose of some of our assets upon disadvantageous terms or to obtain financing at unfavorable terms, either of which may result in losses to us or reduce the cash flow available to meet our debt service obligations or to pay distributions.

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

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

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

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

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

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

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

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

We seek to finance our commercial real estate-related loans, ABS-RMBS, CMBS and commercial finance assets through CDOs in which we will retain the equity interest. A CDO is a special purpose vehicle that purchases collateral that is expected to generate a stream of interest or other income. The CDO issues various classes of securities that participate in that income stream, typically one or more classes of debt instruments and a class of equity securities. The equity interests are subordinate in right of payment to all other securities issued by

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the CDO. The equity is usually entitled to all of the income generated by the CDO after the CDO pays all of the interest due on the debt securities and other expenses. However, there will be little or no income available to the CDO equity if there are excessive defaults by the issuers of the underlying collateral. In that event, the value of our investment in the CDO's equity could decrease substantially. In addition, the equity securities of CDOs are generally illiquid, and because they represent a leveraged investment in the CDO's assets, the value of the equity securities will generally have greater fluctuations than the value of the underlying collateral.

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

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

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

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

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

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

In order to be excluded from regulation under the Investment Company Act, we must comply with the requirements of one or more of the exclusions from the definition of investment company. Because we conduct our business through wholly-owned subsidiaries, we must ensure not only that we qualify for an exclusion from regulation under the Investment Company Act, but also that each of our subsidiaries so qualifies. If we fail to qualify for an exclusion, we could be required to restructure our activities or register as an investment company. Either alternative would require significant changes in our operations and could reduce the market price of our common stock. For example, if the market value of our investments in assets other than 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

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

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

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

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

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

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

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

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

Risks Related to Our Investments

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

A significant risk associated with our investment in commercial real estate-related loans, ABS-RMBS, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase

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significantly. If long-term rates increase, the market value of our assets would decline. Even if the mortgages underlying any agency ABS-RMBS we may own in the future are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, those guarantees do not protect against declines in market value of the related ABS-RMBS caused by interest rate changes. At the same time, because of the short-term nature of the financing we expect to use to acquire our investments and to hold ABS-RMBS, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread. This could result in reduced profitability and distributions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As our repurchase agreements and other short-term borrowings mature, we will be required either to enter into new borrowings or to sell certain of our investments at times when we might otherwise not choose to do so. At September 30, 2006, our repurchase agreements had a weighted average maturity of 3 days and our secured term facility had a weighted average maturity of 3.5 years. An increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would adversely affect our returns on our assets, which might reduce earnings and, in turn, cash available for distribution to our stockholders.

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

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

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

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

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

In the course of our business, we may take title to real estate through foreclosure on collateral underlying real estate 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.

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

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

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

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

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

Available interest rate hedges may not correspond directly with the interest rate risk against which we seek protection.

The duration of the hedge may not match the duration of the related liability.

Interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.

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

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

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

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

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

monitoring the valuation and effectiveness of the hedges, and providing reports

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concerning our hedging activities and the valuation and effectiveness of our hedges, to the audit committee of our board of directors no less often than quarterly. Our guidelines also require us to engage one or more experienced third party advisors to provide us with assistance in the identification of interest rate risks, the analysis, selection and timing of risk protection strategies, the administration and negotiation of hedge documentation, settlement or disposition of hedges, compliance with hedge accounting requirements and measurement of hedge effectiveness and valuation.

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

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

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

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

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

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

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include other fees and charges. These losses will be reflected in our financial results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

Increased levels of prepayments on our MBS might decrease our net interest income or result in a net loss.

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

The obligations underlying our real estate-related investments will be subject to delinquency, foreclosure and loss, which could result in losses to us.

Our real estate-related investments will be secured by underlying mortgage loan obligations. Accordingly, we will be subject to all of the risks of the underlying obligations.

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

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

property location and condition,

competition from comparable types of properties,

changes in laws that increase operating expense or limit rents that may be charged,

any need to address environmental contamination at the property,

the occurrence of any uninsured casualty at the property,

changes in national, regional or local economic conditions and/or specific industry segments,

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declines in regional or local real estate values,

declines in regional or local rental or occupancy rates,

increases in interest rates, real estate tax rates and other operating expenses,

transitional nature of a property being converted to an alternate use;

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

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

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

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

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

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

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

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

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Risks Related to this Offering

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

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

The market price of our common stock may vary substantially.

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

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

changes in our earnings estimates or publication of research reports about us or the real estate or specialty finance industry;

increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community; and

general market and economic conditions.

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

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities. Upon liquidation, holders of our debt securities and shares of preferred stock, if any, and lenders with respect to other borrowings will receive a distribution of our available assets before we can make any distributions to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or dividend payments that could limit our ability to make distributions to the holders of our

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common stock. Issuance of substantial amounts of our common stock, including shares of our common stock issued pursuant to our incentive plan, or the perception that these issuances could occur, could depress the price