CRYOLIFE INC
Form 425
January 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
washington, d.c. 20549

FORM
8-K

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

Date of Report (Date of earliest event reported): January 13, 2010

CRYOLIFE, INC.
(Exact name of registrant as specified in its charter)

Florida	1-13165	59-2417093
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1655 Roberts Boulevard, N.W., Kennesaw, Georgia 30144
(Address of principal executive office) (zip code)

Registrant's telephone number, including area code: (770) 419-3355

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

x Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 Financial Information

Item 2.02 Results of Operations and Financial Condition.

On January 13, 2010, CryoLife, Inc. (“CryoLife”) issued a press release and related documents (the “Announcements”) announcing its acquisition of 1,606,005 shares of the common stock of Medafor, Inc. (“Medafor”) and CryoLife’s proposal to combine the two companies. Among the information disclosed in the Announcements, attached hereto as Exhibit 99.1, CryoLife reported that its sales of Hemostase for the year ended December 31, 2009 were $6 million.

Section 8 Other Events

Item 8.01 Other Events.

As described in Item 2.02 above, on January 13, 2010, CryoLife issued the Announcements to make public its acquisition of 1,606,005 shares of the common stock of Medafor and CryoLife’s proposal to combine the two companies. The Announcements are available at www.cryolife.com/medaforoffer or have otherwise been disseminated by CryoLife.

This filing and the Announcements are provided for informational purposes only and are not offers to purchase nor a solicitation of offers to sell shares of Medafor or CryoLife. Subject to future developments, CryoLife may file a registration statement and/or tender offer documents and/or proxy statement with the SEC in connection with the proposed combination. Shareholders should read those filings, and any other filings made by CryoLife with the SEC in connection with the combination, as they will contain important information. Those documents, if and when filed, as well as CryoLife’s other public filings with the SEC, may be obtained without charge at the SEC’s website at www.sec.gov and at CryoLife’s website at www.cryolife.com.

Except for the historical information contained in this report, the statements made by CryoLife are forward-looking statements that involve risks and uncertainties. All such statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Please refer to the Announcements for further discussion about forward-looking statements. For further information on risk factors, please refer to “Risk Factors” contained in CryoLife’s Form 10-K for the year ended December 31, 2008, as filed with the SEC, and any subsequent SEC filings, as well as in the Announcements. CryoLife disclaims any obligation or duty to update or modify these forward-looking statements.

Section 9 Financial Statements and Exhibits

Item 9.01(d) Exhibits.

(a) Financial Statements.
Not applicable.

(b) Pro Forma Financial Information.
Not applicable.

(c) Shell Company Transactions.
Not applicable.

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(d) Exhibits.

Exhibit Number	Description
99.1	Information available at www.cryolife.com/medaforoffer or otherwise disseminated by CryoLife

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, CryoLife, Inc. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CRYOLIFE, INC.

Date: January 13, 2010	By:	/s/ D.A. Lee
	Name:	D. Ashley Lee
	Title:	Executive Vice President, Chief Operating Officer and Chief Financial Officer

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Diluted:

Net (loss) income

$(2,401) $3,776 $8,814 $6,008

Weighted average number of shares outstanding

17,585,171 15,333,334 17,261,091 15,333,334

Additional shares due to assumed conversion of dilutive instruments

124,799 127,475 124,799

Adjusted weighed-average number of common shares outstanding[(1)]

17,585,171 15,458,133 17,388,566 15,458,133

Diluted net (loss) income per share

$(0.14) $0.24 $0.51 $0.39

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(1) For the three months ended September 30, 2006, the weighted average number of shares used in calculating the diluted net loss per share is the same as the basic weighted average number of shares as a result of a net loss available to common shareholders for the period.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2006

(Unaudited)

Potentially dilutive shares relating to stock options to purchase 651,666 shares of common stock and warrants to purchase 1,568,244 shares of common stock for the three and nine months ended September 30, 2006 and 349,000 restricted shares and options to purchase 651,666 shares of common stock for the three months ended September 2005 and the period ended September 30, 2005 are not included in the calculation of diluted net income per share because the effect is anti-dilutive.

NOTE 9 RELATED-PARTY TRANSACTIONS

Management Agreement

The base management fee for the three and nine months ended September 30, 2006 was $916,000 and $2.7 million, respectively. The incentive management fee for the nine months ended September 30, 2006 was $432,000. No incentive management fee was earned by the Manager for the three months ended September 30, 2006. The base management fee for the three months ended September 30, 2005 and period from March 8, 2005 to September 30, 2005 was $822,000 and $1.8 million, respectively. No incentive management fee was earned by the Manager for the three months and the period ended September 30, 2005.

At September 30, 2006, the Company was indebted to the Manager for base management fees of $614,000 and for reimbursement of expenses of $263,000. At December 31, 2005, the Company was indebted to the Manager for base and incentive management fees of $552,000 and $344,000, respectively, and for reimbursement of expenses of $143,000. These amounts are included in management and incentive fee payable and accounts payable and accrued liabilities, respectively.

Relationship with Resource Real Estate

Resource Real Estate, Inc., a subsidiary of RAI, originates, finances and manages the Company s commercial real estate loan portfolio, including whole loans, A notes, B notes and mezzanine loans. The Company reimburses Resource Real Estate for loan origination costs associated with all loans originated. At September 30, 2006 and December 31, 2005, the Company was indebted to Resource Real Estate for loan origination costs in connection with the Company s commercial real estate loan portfolio of $332,000 and $22,000, respectively.

Relationship with LEAF Financial Corporation (LEAF)

LEAF, a subsidiary of RAI, originates and manages equipment leases and notes on the Company s behalf. The Company purchases these leases and notes from LEAF at a price equal to their book value plus a reimbursable origination cost not to exceed 1% to compensate LEAF for its origination costs. In addition, the Company pays LEAF an annual servicing fee, equal to 1% of the book value of managed assets, for servicing the Company s equipment leases and notes. At September 30, 2006 and December 31, 2005, the Company was indebted to LEAF for servicing fees in connection with the Company s equipment finance portfolio of $143,000 and $41,000, respectively. The LEAF servicing fees for the three and nine months ended September 30, 2006 were $210,000 and $430,000, respectively. No LEAF servicing fees were incurred for the three months and period ended September 30, 2005.

During the three months ended September 30, 2006, the Company sold two notes back to LEAF at a price equal to their book value. The total proceeds received on outstanding notes receivable were $16.3 million.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2006

(Unaudited)

Relationship with RAI

At September 30, 2006, RAI, had a 10.7% ownership interest in the Company, consisting of 1,900,000 shares it had purchased, 14,076 shares it received as incentive compensation pursuant to the management agreement and 307 vested shares associated with the issuance of restricted stock. In addition, certain officers of the Manager and its affiliates had a 2.3% ownership interest in the Company, consisting of 334,667 shares they had purchased and 83,995 vested shares associated with the issuance of restricted stock as of September 30, 2006. All purchased shares were acquired in offerings by the Company at the same price at which shares were purchased by the other investors in those offerings.

Relationship with Law Firm

Until 1996, the Company s Chairman, Edward Cohen, was of counsel to Ledgewood, P.C., a law firm. The Company paid Ledgewood $25,000 and $314,000 for the three and nine months ended September 30, 2006, respectively, and $203,000 and $613,000 for the three months and period ended September 30, 2005. Mr. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood and its redemption of his interest.

NOTE 10 DISTRIBUTIONS

On September 19, 2006, the Company declared a quarterly distribution of $0.37 per share of common stock, $6.6 million in the aggregate, which was paid on October 13, 2006 to stockholders of record as of September 29, 2006.

On June 20, 2006, the Company declared a quarterly distribution of $0.36 per share of common stock, $6.4 million in the aggregate, which was paid on July 21, 2006 to stockholders of record as of June 29, 2006.

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

On January 13, 2006, the Company paid a special dividend to stockholders of record on January 4, 2006, including holders of restricted stock, consisting of warrants to purchase the Company s 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 and restricted 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 are issuable upon exercise of the warrants.

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate value. The estimated fair value of available-for-sale securities, derivatives and direct financing leases and notes is equal to their respective carrying value presented in the consolidated balance sheets. The estimated fair value of loans held for investment was $1.1 billion and $571.7 million as of September 30, 2006 and December 31, 2005, respectively. The estimated fair value of all other assets and liabilities approximate carrying value as of September 30, 2006 and December 31, 2005 due to the short-term nature of these items.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2006

(Unaudited)

NOTE 12 DERIVATIVE INSTRUMENTS

At September 30, 2006, the Company had 11 interest rate swap contracts and four forward interest rate swap contracts. The Company will pay an average fixed rate of 5.34% and receive a variable rate equal to one-month and three-month LIBOR on the interest rate swap contracts. The aggregate notional amount of these contracts was $212.3 million. The Company will pay an average fixed rate of 5.31% and receive a variable rate equal to one-month LIBOR on the forward interest rate swap contracts, which will commence in February 2007. The aggregate notional amount of these contracts was $61.0 million. In addition, the Company had one interest rate cap agreement outstanding whereby it reduced its exposure to variability in future cash outflows attributable to changes in LIBOR. The aggregate notional amount of this contract was $15.0 million at September 30, 2006.

At December 31, 2005, the Company had six interest rate swap contracts outstanding whereby the Company will pay an average fixed rate of 3.89% and receive a variable rate equal to one-month and three-month LIBOR. The aggregate notional amount of these contracts was $972.2 million at December 31, 2005. In addition, the Company had one interest rate cap agreement outstanding whereby it reduced its exposure to variability in future cash outflows attributable to changes in LIBOR. The aggregate notional amount of this contract was $15.0 million at December 31, 2005.

The estimated fair value of the Company s interest rate swaps, forward swaps and interest rate cap was $(3.3) million and $3.0 million as of September 30, 2006 and December 31, 2005, respectively. The Company had aggregate unrealized losses of $3.4 million and aggregate unrealized gains of $2.8 million on the interest rate swap agreements and interest rate cap agreement, as of September 30, 2006 and December 31, 2005, respectively, which is recorded in accumulated other comprehensive loss. In connection with the January 2006 sale of a portion of the Company s agency ABS-RMBS portfolio, the Company realized a swap termination gain of $881,000, which is reflected in interest expense in the Company s consolidated statements of operations. In connection with the sale of the Company s remaining agency ABS-RMBS portfolio on September 27, 2006, the Company realized a swap termination gain of $2.6 million. This swap agreement had an original termination date of October 2007. The realized gain is reflected in net realized gains on investments in the Company s consolidated statements of operations.

NOTE 13 SUBSEQUENT EVENT

On October 2, 2006, in connection with the sale of the Company s agency ABS-RMBS portfolio, all borrowings were repaid under the CS and UBS Securities LLC agency ABS-RMBS repurchase facilities totaling $716.5 million. In addition, the net proceeds were used to repay outstanding borrowings under the Column Financial Inc. commercial real estate loan repurchase facility in October 2006.

On October 31, 2006, the Company entered into a secured term credit facility with Morgan Stanley Bank to finance the purchase of equipment leases and notes. The maximum amount of the Company s borrowing under this facility is $100.0 million for the first 12 months and $250.0 million thereafter. The facility expires October 2009.

Borrowings under this facility bear interest at one of two rates, determined by the outstanding balance of the facility:

Less than $100.0 million one-month LIBOR plus 0.60%; and

Greater than $100.0 million one-month LIBOR plus 0.75%

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

Resource Capital Corp.

We have audited the accompanying consolidated balance sheet of Resource Capital Corp. and subsidiaries (the Company) as of December 31, 2005, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for the period from March 8, 2005 (Date Operations Commenced) to December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resource Capital Corp. and subsidiaries as of December 31, 2005, and the results of their operations, and their cash flows for the period from March 8, 2005 (Date Operations Commenced) to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

New York, New York
March 15, 2006

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)

		December 31, 2005
ASSETS		
Cash and cash equivalents	$	17,729
Restricted cash		23,592
Due from broker		525
Available-for-sale securities, pledged as collateral, at fair value		1,362,392
Available-for-sale securities, at fair value		28,285
Loans, net of allowances of $0		570,230
Direct financing leases and notes, net		23,317
Derivatives, at fair value		3,006
Interest receivable		9,520
Principal paydowns receivables		5,805
Other assets		1,146
Total assets	$	2,045,547
LIABILITIES		
Repurchase agreements, including accrued interest of $2,104	$	1,068,277
Collateralized debt obligations (CDOs)		687,407
Warehouse agreements		62,961
Unsecured revolving credit facility		15,000
Distribution payable		5,646
Accrued interest expense		9,514
Management fee payable related party		896
Accounts payable and accrued liabilities		513
Total liabilities		1,850,214
STOCKHOLDERS EQUITY		
Preferred stock, par value $0.001: 100,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value $0.001: 500,000,000 shares authorized; 15,682,334 shares issued and outstanding (including 349,000 restricted shares)		16
Additional paid-in capital		220,161
Deferred equity compensation		(2,684)
Accumulated other comprehensive loss		(19,581)
Distributions in excess of earnings		(2,579)
Total stockholders equity	$	195,333
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	2,045,547

See accompanying notes to consolidated financial statements.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except share and per share data)

		Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
REVENUES		
Net interest income:		
Interest income from securities available-for-sale	$	44,247
Interest income from loans		14,662
Interest income other		2,478
Total interest income		61,387
Interest expense		43,062
Net interest income		18,325
OTHER REVENUE		
Net realized gain on investments		311
EXPENSES		
Management fee expense related party		3,012
Equity compensation expense related party		2,709
Professional services		516
Insurance expense		395
General and administrative		1,096
Total expenses		7,728
NET INCOME	$	10,908
NET INCOME PER SHARE BASIC	$	0.71
NET INCOME PER SHARE DILUTED	$	0.71
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC		15,333,334
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DILUTED		15,405,714
DIVIDENDS DECLARED PER SHARE	$	0.86

See accompanying notes to consolidated financial statements.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

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

(in thousands, except share and per share data)

	Common Stock						Distributions in Excess of		
	Shares	Amount	Additional Paid-In Capital	Deferred Equity Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Earnings	Comprehensive Loss	Total Stockholders Equity
Common shares issued	15,333,334	$ 15	$ 215,310	$	$		$	$	$ 215,325
Offering costs			(541)						(541)
Stock based compensation	349,000	1	5,392	(5,393)					
Amortization of stock based compensation				2,709					2,709
Net income						10,908		10,908	10,908
Available-for-sale securities, fair value adjustment					(22,357)			(22,357)	(22,357)
Designated derivatives, fair value adjustment					2,776			2,776	2,776
Distributions Common Stock						(10,908)	(2,579)		(13,487)
Comprehensive loss								$ (8,673)	
Balance, December 31, 2005	15,682,334	$ 16	$ 220,161	$ (2,684)	$ (19,581)	$	$ (2,579)		$ 195,333

See accompanying notes to consolidated financial statements.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

		Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$	10,908
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization		5
Amortization of premium (discount) on available-for-sale securities		(362)
Amortization of debt issuance costs		461
Amortization of stock based compensation		2,709
Non-cash incentive compensation to the manager		86
Net realized gain on investments		(311)
Changes in operating assets and liabilities:		
Increase in restricted cash		(23,592)
Increase in interest receivable, net of purchased interest		(9,339)
Increase in due from broker		(525)
Increase in principal paydowns receivable		(5,805)
Increase in management fee payable		810
Increase in accounts payable and accrued liabilities		501
Increase in accrued interest expense		11,595
Increase in other assets		(1,365)
Net cash used in operating activities		(14,224)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities available-for-sale		(1,557,752)
Principal payments received on securities available-for-sale		136,688
Proceeds from sale of securities available-for-sale		8,483
Purchase of loans		(696,320)
Principal payments received on loans		35,130
Proceeds from sale of loans		91,023
Purchase of direct financing leases and notes		(25,097)
Payments received on direct financing leases and notes		1,780
Purchase of property and equipment		(5)
Net cash used in investing activities		(2,006,070)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (net of offering costs of $541)		214,784
Proceeds from borrowings:		
Repurchase agreements		8,446,739
Warehouse agreements		600,633
Collateralized debt obligations		697,500
Unsecured revolving credit facility		15,000
Payments on borrowings:		
Repurchase agreements		(7,380,566)
Warehouse agreements		(537,672)
Payment of debt issuance costs		(10,554)
Distributions paid on common stock		(7,841)
Net cash provided by financing activities		2,038,023

NET INCREASE IN CASH AND CASH EQUIVALENTS		17,729
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	17,729
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Distributions on common stock declared but not paid	$	5,646
Issuance of restricted stock	$	5,393
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$	46,268

See accompanying notes to consolidated financial statements.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 1 ORGANIZATION

Resource Capital Corp. and subsidiaries (the Company) was incorporated in Maryland on January 31, 2005 and commenced its operations on March 8, 2005 upon receipt of the net proceeds from a private placement of shares of its common stock. The Company s principal business activity is to purchase and manage a diversified portfolio of real estate-related assets and commercial finance assets. The Company s investment activities are managed by Resource Capital Manager, Inc. (the Manager) pursuant to a management agreement (the Management Agreement) (see Note 9).

The Company intends to elect to be taxed as a real estate investment trust (REIT) for federal income tax purposes effective for its initial taxable year ending December 31, 2005 and to comply with the provisions of the Internal Revenue Code of 1986, as amended (the Code) with respect thereto. See Note 3 for further discussion on income taxes.

The Company has three wholly-owned subsidiaries: RCC Real Estate, Inc. (RCC Real Estate), RCC Commercial, Inc. (RCC Commercial) and Resource TRS, Inc. (Resource TRS). RCC Real Estate holds all of the Company s real estate investments, including commercial and residential real estate-related securities and real estate loans. RCC Commercial holds all of the Company s bank loan investments, equipment leases and notes and private equity investments. RCC Real Estate owns 100% of the equity interest in Ischus CDO II, Ltd. (Ischus CDO II), a Cayman Islands limited liability company and qualified REIT subsidiary (QRS). Ischus CDO II was established to complete a collateralized debt obligation (CDO) issuance secured by a portfolio of mortgage-backed and other asset-backed securities. RCC Commercial owns 100% of the equity interest in Apidos CDO I, Ltd. (Apidos CDO I), a Cayman Islands limited liability company and taxable REIT subsidiary (TRS). Apidos CDO I was established to complete a CDO secured by a portfolio of bank loans. As of December 31, 2005, the Company had also formed Apidos CDO III, Ltd. (Apidos CDO III), a Cayman Islands limited liability company that the Company has elected to treat as a TRS. RCC Commercial intends to purchase 100% of the equity interest in Apidos CDO III. Apidos CDO III was established to complete a CDO that will be secured by a portfolio of bank loans. As of December 31, 2005, there was no activity in Resource TRS.

NOTE 2 BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and entities which are variable interest entities (VIE s) in which the Company is the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46-R). In general, FIN 46-R requires an entity to consolidate a VIE when the entity holds a variable interest in the VIE and is deemed to be the primary beneficiary of the VIE. An entity is the primary beneficiary if it absorbs a majority of the VIE s expected losses, receives a majority of the VIE s expected residual returns, or both.

Ischus CDO II, Apidos CDO I and Apidos CDO III are VIEs and are not considered to be qualifying special-purpose entities as defined by Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, (SFAS No. 140). The Company owns 100% of the equity (preference shares) issued by Ischus CDO II and Apidos CDO I and has provided a guarantee of the first $20.0 million in losses for Apidos CDO III. As a result, the Company has determined it is the primary beneficiary of these entities and has included the accounts of these entities in the consolidated financial statements. See Note 3 for a further discussion of our VIEs.

All significant intercompany balances and transactions have been eliminated in consolidation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less (temporary cash investments) at the time of purchase, which are held at financial institutions.

Restricted Cash

Restricted cash consists of $5.0 million of cash held in escrow in conjunction with a CDO transaction to be closed in 2006 and $18.6 million of cash held in two completed CDO offerings.

Due from Broker

Amounts due from broker generally represent cash balances held with brokers as part of margin requirements related to hedging agreements.

Securities Available for Sale

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115), requires the Company to classify its investment portfolio as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally plans to hold most of its investments to maturity, it may, from time to time, sell any of its investments due to changes in market conditions or in accordance with its investment strategy. Accordingly, SFAS No. 115 requires the Company to classify all of its investment securities as available-for sale. All investments classified as available-for-sale are reported at fair value, based on market prices provided by dealers, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders equity.

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

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

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

Interest Income Recognition

Interest income on the Company s mortgage-backed and other asset-backed securities is accrued using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. Premiums and discounts are amortized or accreted into interest income over the lives of the securities also using the effective yield method (or a method that approximates effective yield), adjusted for the effects of estimated prepayments based on SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. For an investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires the Company to make estimates of future prepayment rates for its investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that the Company uses directly impact the estimated remaining lives of its investments. Actual prepayment estimates are reviewed as of each quarter end or more frequently if the Company becomes aware of any material information that would lead it to believe that an adjustment is necessary. If prepayment estimates are incorrect, the amortization or accretion of premiums and discounts may have to be adjusted, which would have an impact on future income.

Loans

The Company purchases participations in corporate leveraged loans and commercial real estate loans in the secondary market and through syndications of newly originated loans. Loans are held for investment; therefore, the Company initially records them at their purchase prices, and subsequently accounts for them based on their outstanding principal plus or minus unamortized premiums or discounts. In certain instances, where the credit fundamentals underlying a particular loan have changed in such a manner that the Company s expected return on investment may decrease, the Company may sell a loan held for investment due to adverse changes in credit fundamentals. Once the determination has been made by the Company that it no longer will hold the loan for investment, the Company will account for the loan at the lower of amortized cost or market value.

Loan Interest Income Recognition

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

Allowance and Provision for Loan Losses

To estimate the allowance for loan losses, the Company first identifies impaired loans. Loans are generally evaluated for impairment individually, but loans purchased on a pooled basis with relatively smaller balances and substantially similar characteristics may be evaluated collectively for impairment. The Company considers a loan to be impaired when, based on current information and events, management believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, the allowance for loan losses is increased by the amount of the excess of the amortized

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cost basis of the loan over its fair value. Fair value may be determined based on market price, if available; the fair value of the collateral less estimated disposition costs; or the present value of estimated cash flows. Increases in the allowance for loan losses are recognized in the statements of operations as a provision for loan losses. A charge-off or write-down of a loan is recorded, and the allowance for loan losses is reduced, when the loan or a portion thereof is considered uncollectible and of such little value that further pursuit of collection is not warranted.

An impaired loan may be left on accrual status during the period the Company is pursuing repayment of the loan; however, the loan is placed on non-accrual status at such time as: (1) management believes that scheduled debt service payments will not be met within the coming 12 months; (2) the loan becomes 90 days delinquent; (3) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (4) the net realizable value of the loan s underlying collateral approximates the Company s carrying value of such loan. While on non-accrual status, interest income is recognized only upon actual receipt.

As of December 31, 2005, the Company had not recorded an allowance for loan losses. At December 31, 2005, all of the Company s loans are current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and the observable secondary market prices, the Company did not identify any loans that exhibit characteristics indicating that impairment has occurred.

Direct Financing Leases and Notes

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

Credit and Market Risk

The Company s investments as of December 31, 2005, consist of mortgage-backed and other asset-backed securities, participations in corporate leveraged loans and commercial real estate loans, equipment leases and notes and private equity investments. The mortgage-backed and other asset-backed securities are securities that pass through collections of principal and interest from either underlying mortgages or other secured assets. Therefore, these securities may bear some exposure to credit loss. The Company mitigates some of this risk by holding a significant portion of its assets in securities that are issued by the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). The payment of principal and interest on these securities is guaranteed by the respective issuing agencies. In addition, the Company s leveraged loans and commercial real estate loans may bear exposure to credit loss.

The Company bears certain other risks typical in investing in a portfolio of mortgage-backed and other asset-backed securities. Principal risks potentially affecting the Company s consolidated financial position, consolidated results of operations and consolidated cash flows include the risks that: (a) interest rate changes can negatively affect the market value of the Company s mortgage-backed and other asset-backed securities,

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(b) interest rate changes can influence decisions made by borrowers on the mortgages underlying the securities to prepay those mortgages, which can negatively affect both cash flows from, and the market value of, the securities, and (c) adverse changes in the market value of the Company s mortgage-backed securities and/or the inability of the Company to renew short-term borrowings can result in the need to sell securities at inopportune times and incur realized losses.

Borrowings

The Company finances the acquisition of its investments, including securities available-for-sale and loans, primarily through the use of secured borrowings in the form of repurchase agreements, warehouse agreements, CDOs and an unsecured revolving credit facility. The Company may use other forms of secured borrowing in the future. The Company recognizes interest expense on all borrowings on an accrual basis.

Accounting for Certain MBS and Related Repurchase Agreements

In certain circumstances, the Company has purchased debt investments from a counterparty and subsequently financed the acquisition of those debt investments through repurchase agreements with the same counterparty. The Company currently records the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated income statements. However, under a certain technical interpretation of SFAS 140, such transactions may not qualify as a purchase. The Company believes, and it is industry practice, that it is accounting for these transactions in an appropriate manner. However, the result of this technical interpretation would prevent the Company from presenting the debt investments and repurchase agreements and the related interest income and interest expense on a gross basis on the Company s financial statements. Instead, the Company would present the net investment in these transactions with the counterparty and a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of December 31, 2005, the Company had 19 transactions where debt instruments were financed with the same counterparty aggregating approximately $307.3 million in MBS and $294.2 million in financings under related repurchase agreements. As of March 28, 2006, the Company had one of these transactions remaining comprised of $19.4 million of MBS and $18.8 million in financings under related repurchase agreements. It is anticipated that this transaction will no longer be financed with the same counterparty as of March 31, 2006.

Comprehensive Income

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

Income Taxes

The Company expects to operate in a manner that will allow it to qualify and be taxed as a REIT and to comply with the provisions of the Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income (Taxable Income) which is distributed to its stockholders, provided that at least 90% of Taxable Income is distributed and certain other requirements are met. If the Company fails to meet these requirements and does not qualify for certain statutory relief provisions, it would be

RESOURCE CAPITAL CORP. AND SUBSIDIARIES

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subject to federal income tax. The Company has a wholly-owned domestic subsidiary, Resource TRS, that the Company and Resource TRS have elected to be treated as a taxable REIT subsidiary (TRS). For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by the Company with respect to its interest in Resource TRS, a domestic taxable REIT subsidiary, because it is taxed as a regular subchapter C corporation under the provisions of the Code. As of December 31, 2005, Resource TRS did not have any taxable income. Apidos CDO I, the Company s foreign TRS is organized as an exempted company incorporated with limited liability under the laws of the Cayman Islands, and is generally exempt from federal and state income tax at the corporate level because its activities in the United States are limited to trading in stock and securities for its own account. Therefore, despite its status as a TRS, it generally will not be subject to corporate tax on its earnings and no provision for income taxes is required; however because it is a controlled foreign corporation, the Company will generally be required to include Apidos CDO I s current taxable income in its calculation of REIT taxable income. The Company also intends to make an election to treat Apidos CDO III as a TRS.

Stock Based Compensation

Pursuant to its 2005 Stock Incentive Plan (see Note 15), the Company granted 345,000 shares of restricted stock and options to purchase 651,666 shares of common stock to its Manager. A holder of the restricted shares has all of the rights of a stockholder of the Company, including the right to vote such shares and receive dividends. The Company accounts for the restricted stock and stock options in accordance with EITF 96-18, Accounting for Equity Instruments that are issued to other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, (EITF 96-18) and SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS No. 123). In accordance with EITF 96-18, the stock and options are recorded in stockholders equity at fair value through an increase to additional paid-in-capital and an off-setting entry to deferred equity compensation (a contra-equity account). The deferred compensation is amortized over a three year graded vesting period with the amortization expense reflected as equity compensation expense. The unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. Any change in fair value is reflected in the equity compensation expense recognized in that quarter and in future quarters until the stock and options are fully vested.

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

Incentive Compensation

The Management Agreement provides for incentive compensation if the Company s financial performance exceeds certain benchmarks. See Note 9 for further discussion on the specific terms of the computation and payment of the incentive fee.

The incentive fee will be paid up to 75% in cash and at least 25% in restricted stock. The cash portion of the incentive fee is accrued and expensed during the period for which it is calculated and earned. In accordance with SFAS No. 123 and EITF 96-18, the restricted stock portion of the incentive fee is also accrued and expensed during the period for which it is calculated and earned. Shares granted in connection with the incentive fee will

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vest immediately. For the period from March 8, 2005 to December 31, 2005, the Manager earned an incentive management fee of $344,000. Based on the terms of the Management Agreement, the Manager will be paid its incentive management fee partially by the issuance of 5,738 of common shares and partially in cash totaling approximately $258,000. The incentive fee is payable in February 2006.

Net Income Per Share

In accordance with the provisions of SFAS No. 128, Earnings per Share, the Company calculates basic income per share by dividing net income for the period by weighted-average shares of its common stock, including vested restricted stock, outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options and unvested restricted stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding (see Note 8).

Derivative Instruments

The Company s policies permit it to enter into derivative contracts, including interest rate swaps and interest rate caps to add stability to its interest expense and to manage its exposure to interest rate movements or other identified risks.

The Company designates its derivative instruments as cash flow hedges and evaluates them at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. A hedge instrument is highly effective if changes in the fair value of the derivative provide an offset to at least 80% and not more than 125% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, the Company recognizes all derivatives as either assets or liabilities in the consolidated balance sheet and measures those instruments at their fair values. Any ineffectiveness which arises during the hedging relationship is recognized in interest expense during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gain and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on futures contracts are reclassified into earnings as an adjustment to interest expense during the specified hedge time period. Realized gains and losses on interest rate swap contracts are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap.

If the Company determines not to designate the interest rate swap and cap contracts as hedges and to monitor their effectiveness as hedges, or if the Company enters into other types of financial instruments that do not meet the criteria for designation as hedges, changes in the fair values of these instruments will be recorded in the statement of operations, potentially resulting in increased volatility in the Company s earnings.

Variable Interest Entities

In December 2003, the FASB issued FIN 46-R. FIN 46-R addresses the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to a VIE and requires that the assets, liabilities and results of operations of a VIE be consolidated into the financial statements of the enterprise that has a controlling financial interest in it. The interpretation provides a framework for determining whether an entity should be evaluated for consolidation based on voting interests or significant financial support provided to the entity

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(variable interests). The Company considers all counterparties to the transaction to determine whether a counterparty is a VIE and, if so, whether the Company s involvement with the entity results in a variable interest in the entity. If the Company is determined to have a variable interest in the entity, an analysis is performed to determine whether the Company is the primary beneficiary.

During April 2005, the Company entered into warehouse and master participation agreements with an affiliate of Credit Suisse Securities (USA) LLC (CS) providing that CS would fund the purchase of loans by Apidos CDO I during the warehouse period in return for a participation interest in the interest earned on the loans of LIBOR plus 0.25%. In addition, the agreements provided for a guarantee by the Company to CS of the first $24.0 million in losses on the portfolio of bank loans. Upon review of the transaction, the Company determined that Apidos CDO I was a VIE under FIN 46-R and the Company was the primary beneficiary of the VIE. As a result, the Company consolidated Apidos CDO I at June 30, 2005. On August 4, 2005, the CS agreements were terminated and the warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO I. The Company owns 100% of the equity issued by Apidos CDO I and is deemed to be the primary beneficiary. As a result, the Company consolidated Apidos CDO I at December 31, 2005.

On July 29, 2005, the Company terminated its Ischus CDO II warehouse agreement with CS and the warehouse funding liability was replaced with the issuance of long-term debt by Ischus CDO II. The Company owns 100% of the equity issued by Ischus CDO II and is deemed to be the primary beneficiary. As a result, the Company consolidated Ischus CDO II at December 31, 2005.

During July 2005, the Company entered into warehouse and master participation agreements with an affiliate of Citigroup Global Markets Inc. (Citigroup) providing that Citigroup will fund the purchase of loans by Apidos CDO III during the warehouse period in return for a participation interest in the interest earned on the loans of LIBOR plus 0.25%. In addition, the agreements provide for a guarantee by the Company to Citigroup of the first $20.0 million in losses on the portfolio of bank loans. As of December 31, 2005, the Company has $5.0 million held in an escrow account in connection with the CDO. Upon review of the transaction, the Company determined that Apidos CDO III is a VIE under FIN 46-R and the Company is the primary beneficiary of the VIE. As a result, the Company consolidated Apidos CDO III as of December 31, 2005, even though the Company does not own any of its equity. The impact of the consolidation of this VIE on the December 31, 2005 balance sheet was to:

- increase loans, net of allowance, by $63.0 million, which represents bank loans held by Apidos CDO III; and
- increase warehouse agreements by $63.0 million, which represents the settlement of Apidos CDO III bank loans.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123-R, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123-R supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach to accounting in Statement 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the issuer s financial statements based on their fair value. The Company is required to adopt the provisions of the standard for the annual period beginning after June 15, 2005. The Company does not expect that the adoption of SFAS No. 123-R will have a material effect on the Company s financial condition, results of operation or liquidity.

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In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, (SFAS 154) which replaces Accounting Principles Board Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for, and reporting of, accounting changes and error corrections. It established retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not currently expect that the new guidance will have a material impact on the Company s financial condition, results of operations or cash flows.

NOTE 4 SECURITIES AVAILABLE-FOR-SALE

The following table summarizes the Company s mortgage-backed securities, other asset-backed securities and private equity investments, including those pledged as collateral, classified as available-for-sale as of December 31, 2005, which are carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency residential mortgage-backed	$ 1,014,575	$ 13	$ (12,918)	$ 1,001,670
Non-agency residential mortgage-backed	346,460	370	(9,085)	337,745
Commercial mortgage-backed	27,970	1	(608)	27,363
Other asset-backed	22,045	24	(124)	21,945
Private equity	1,984		(30)	1,954
Total fair value	$ 1,413,034	$ 408	$ (22,765)	$ 1,390,677(1)

(1) Other than $26.3 million in agency residential mortgage backed securities and $2.0 million in private equity investments, all securities are pledged as collateral as of December 31, 2005.

The actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Actual maturities of the Company s mortgage-backed securities are affected by the contractual lives of the underlying mortgages, periodic scheduled payments of principal, and prepayments of principal, which are presented in principal paydowns receivable in the Company s consolidated balance sheet.

The following table summarizes the estimated maturities of the mortgage-backed securities, other asset-backed securities and private equity investments as of December 31, 2005 according to their estimated weighted-average life classifications (in thousands, except percentages):

Weighted Average Life	Fair Value	Amortized Cost	Average Coupon
Less than one year	$	$	$ %
Greater than one year and less than five years	1,355,910	1,377,537	4.91%
Greater than five years	34,767	35,497	5.60%
Total	$ 1,390,677	$ 1,413,034	4.92%

The estimated weighted-average lives of the Company s mortgage-backed and other asset-backed securities as of December 31, 2005 in the table above are based upon data provided through subscription-based financial information services, assuming constant principal prepayment factors

to the balloon or reset date for each

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security. The prepayment model considers current yield, forward yield, steepness of the yield curve, current mortgage rates, mortgage rate of the outstanding loan, loan age, margin and volatility. The actual weighted-average lives of the agency residential mortgage-backed securities in the Company s investment portfolio could be longer or shorter than the estimates in the table above depending on the actual prepayment factors experienced over the lives of the applicable securities and are sensitive to changes in both prepayment factors and interest rates.

The following table shows the Company s investments fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005 (in thousands):

	Less than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency residential mortgage-backed	$ 978,570	$ (12,918)	$ 978,570	$ (12,918)
Non-agency residential mortgage-Backed	294,359	(9,085)	294,359	(9,085)
Commercial mortgage-backed	26,905	(608)	26,905	(608)
Other asset-backed	12,944	(124)	12,944	(124)
Private equity	1,954	(30)	1,954	(30)
Total temporarily impaired securities	$ 1,314,732	$ (22,765)	$ 1,314,732	$ (22,765)

The temporary impairment of the available-for-sale securities results from the fair value of the securities falling below the amortized cost basis and is solely attributed to changes in interest rates. As of December 31, 2005, none of the securities held by the Company had been downgraded by a credit rating agency since their purchase. The Company intends and has the ability to hold the securities until the fair value of the securities held is recovered, which may be maturity if necessary. As such, the Company does not believe any of the securities held are other-than-temporarily impaired at December 31, 2005.

NOTE 5 LOANS

The following is a summary of the Company s loans at December 31, 2005 (in thousands).

Loan Description	Principal	Unamortized Premium	Net Amortized Cost
Bank loans	$ 397,869	$ 916	$ 398,785
B notes	121,945		121,945
Mezzanine loans	49,500		49,500
Total	$ 569,314	$ 916	$ 570,230

At December 31, 2005, the Company s bank loan portfolio consisted of $398.5 million of floating rate loans, which bear interest between LIBOR plus 1.00% and 7.00% with maturity dates ranging from April 2006 to October 2020, and a $250,000 fixed rate loan, which bears interest at 6.25% with a maturity date of August 2015.

At December 31, 2005, the Company s commercial real estate loan portfolio consisted of seven B notes with an amortized cost of $121.9 million which bear interest at floating rates ranging from LIBOR plus 2.15% to LIBOR plus 6.25% and have maturity dates ranging from January 2007 to April 2008, and four mezzanine loans

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consisting of $44.5 million of floating rate loans, which bear interest between LIBOR plus 2.25% and 4.50% with maturity dates ranging from August 2007 to July 2008, and a $5.0 million fixed rate loan, which bears interest at 9.50% and matures May 2010.

As of December 31, 2005, the Company had not recorded an allowance for loan losses. At December 31, 2005, all of the Company s loans are current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and the observable secondary market prices, the Company did not identify any loans with characteristics indicating that impairment had occurred.

NOTE 6 INVESTMENT IN DIRECT FINANCING LEASES AND NOTES

The Company s direct financing leases have an initial lease term of 54 months. The interest rates on notes receivable range from 8% to 9%. Investments in direct financing leases and notes as of December 31, 2005 are as follows (in thousands):

	As of December 31, 2005
Direct financing leases	$ 18,141
Notes receivable	5,176
Total	$ 23,317

The components of the net investment in direct financing leases as of December 31, 2005 are as follows (in thousands):

	As of December 31, 2005
Total future minimum lease payments	$ 21,370
Unearned rental income	(3,229)
Total	$ 18,141

The future minimum lease payments and related rental payments expected to be received on non-cancelable direct financing leases and notes at December 31, 2005 are as follows (in thousands):

Years Ending December 31,	Direct Financing Leases	Notes	Total
2006	$ 6,717	$ 424	$ 7,141
2007	6,180	459	6,639
2008	4,856	500	5,356
2009	2,085	543	2,628
2010	1,431	591	2,022
Thereafter	101	2,659	2,760

	$ 21,370	$ 5,176	$ 26,546

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NOTE 7 BORROWINGS

The Company finances the acquisition of its investments, including securities available-for-sale and loans, primarily through the use of secured borrowings in the form of repurchase agreements, warehouse facilities, CDO s and other secured borrowings. The Company recognizes interest expense on all borrowings on an accrual basis.

Certain information with respect to the Company s borrowings as of December 31, 2005 is summarized in the following table (dollars in thousands):

	Repurchase Agreements	Ischus CDO II Senior Notes(1)	Apidos CDO I Senior Notes(2)	Apidos CDO III Warehouse Agreement	Unsecured Revolving Credit Facility	Total
Outstanding borrowings	$ 1,068,277	$ 370,569	$ 316,838	$ 62,961	$ 15,000	$ 1,833,645
Weighted-average borrowing rate	4.48%	4.80%	4.42%	4.29%	6.37%	4.54%
Weighted-average remaining maturity	17 days	34.6 years	11.6 years	90 days	3.0 years	
Value of the collateral	$ 1,146,711	$ 387,053	$ 335,831	$ 62,954	$ 45,107	$ 1,977,656

(1) Amount represents principal outstanding of $376.0 million less unamortized issuance costs of $5.4 million.
(2) Amount represents principal outstanding of $321.5 million less unamortized issuance costs of $4.7 million.

At December 31, 2005, the Company had repurchase agreements with the following counterparties (dollars in thousands):

	Amount at Risk(1)	Weighted-Average Maturity in Days	Weighted-Average Interest Rate at December 31, 2005
Credit Suisse Securities (USA) LLC	$ 31,158	17	4.34%
Bear, Stearns International Limited	$ 36,044	17	5.51%
Deutsche Bank AG, Cayman Islands Branch	$ 16,691	18	5.68%

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

In July 2005, the Company closed Ischus CDO II, a $400.0 million CDO transaction that provides financing for mortgage-backed and other asset-backed securities. The investments held by Ischus CDO II collateralize the debt issued by the transaction and, as a result, those investments are not available to the Company, its creditors or stockholders. Ischus CDO II issued a total of $376.0 million of senior notes at par to investors and RCC Real Estate purchased a $27.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinate in right-of-payment to all other securities issued by the CDO.

The senior notes issued to investors by Ischus CDO II consist of the following classes: (i) $214.0 million of class A-1A notes bearing interest at 1-month LIBOR plus 0.27%; (ii) $50.0 million of class A-1B delayed draw notes bearing interest on the drawn amount at 1-month LIBOR plus

0.27%; (iii) $28.0 million of class A-2 notes bearing interest at 1-month LIBOR plus 0.45%; (iv) $55.0 million of class B notes bearing interest at 1-month LIBOR plus 0.58%; (v) $11.0 million of class C notes bearing interest at 1-month LIBOR plus 1.30%; and (vi) $18.0 million of class D notes bearing interest at 1-month LIBOR plus 2.85%. All of the notes issued mature on August 6, 2040, although the Company has the right to call the notes at par any time after August 6, 2009 until maturity.

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

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

In July 2005, the Company formed Apidos CDO III and began borrowing on a warehouse facility provided by a major financial institution to purchase loans to include in Apidos CDO III. At December 31, 2005, Apidos CDO III had borrowed $63.0 million. The facility allows borrowings of up to $200.0 million which can be increased upon mutual agreement of the parties. The facility bears interest at a rate of LIBOR plus 0.25%, which was 4.61% at December 31, 2005. RCC Commercial intends to purchase 100% of the equity interest in Apidos CDO III upon execution of the CDO transaction.

The Company entered into a master repurchase agreement with CS, to finance the purchase of agency ABS-RMBS securities. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At December 31, 2005, the Company had borrowed $947.1 million with a weighted average interest rate of 4.34%.

In August 2005, the Company entered into a master repurchase agreement with Bear, Stearns International Limited to finance the purchase of commercial real estate loans. The maximum amount of the Company s borrowing under the repurchase agreement is $150.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At December 31, 2005, the Company had borrowed $80.6 million with a weighted average interest rate of LIBOR plus 1.14%, which was 5.51% at December 31, 2005.

In December 2005, the Company entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch, to finance the purchase of commercial real estate loans. The maximum amount of the Company s borrowing under the repurchase agreement is $300.0 million. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. At December 31, 2005, the Company had borrowed $38.5 million with a weighted average interest rate of LIBOR plus 1.32%, which was 5.68% at December 31, 2005.

In December 2005, the Company entered into a $15.0 million unsecured revolving credit facility with Commerce Bank, N.A. Outstanding borrowings bear interest at one of two rates elected at the Company s option; (i) the lender s prime rate plus a margin ranging from 0.50% to 1.50% based upon the Company s leverage ratio; or (ii) LIBOR plus a margin ranging from 1.50% to 2.50% based upon the Company s leverage ratio. The facility expires in December 2008. As of December 31, 2005, the balance outstanding was $15.0 million at an interest rate of 6.37%.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

NOTE 8 CAPITAL STOCK AND EARNINGS PER SHARE

The Company had 500,000,000 shares of common stock par value $0.001 per share authorized and 15,682,334 shares (including 349,000 restricted shares) outstanding as of December 31, 2005. The Company had 100,000,000 shares of par value $0.001 preferred stock authorized and none issued and outstanding as of December 31, 2005.

On March 8, 2005, the Company completed a private placement of 15,333,334 shares of common stock, $0.001 par value at an offering price of $15.00 per share, including the sale of 666,667 shares of common stock pursuant to the over-allotment option of the initial purchasers/placement agents. The Company received proceeds from these transactions in the amount of $214.8 million, net of underwriting discounts and commissions, placement agent fees and other offering costs.

On March 8, 2005, the Company granted 345,000 shares of restricted common stock, par value $0.001 and options to purchase 651,666 common shares at an exercise price of $15.00 per share, to the Manager (see Note 15). The restrictions with respect to the restricted common stock lapse and full rights of ownership vest for one-third of the shares and options on the first anniversary of the grant date, for one-third of the shares on the second anniversary and for the last one-third of the shares on the third anniversary. Vesting is predicated on the continuing involvement of the Manager in providing services to the Company. In addition, the Company granted 4,000 shares of restricted common stock to the Company s non-employee directors as part of their annual compensation. These shares vest in full on the first anniversary of the date of the grant.

The fair value of the shares of restricted stock granted, including shares issued to the directors, was $5,235,000, of which $2.6 million was expensed for the period from March 8, 2005 to December 31, 2005. The fair value of the total options granted was $158,300, of which approximately $79,000 was expensed for the period from March 8, 2005 to December 31, 2005. The fair value of each option grant at December 31, 2005 is $0.243, estimated on the measurement date using the Black-Scholes option-pricing model with the following weighted-average assumptions as of December 31, 2005: dividend yield of 12.00 percent; expected volatility of 20.11%, risk-free interest rate of 4.603%; and expected life of 10 years.

The following table presents a reconciliation of basic and diluted earnings per share for the period from March 8, 2005 (date operations commenced) to December 31, 2005 (in thousands, except share and per share amounts):

	Period from March 8, 2005 (Date Operations Commenced) to December 31, 2005
Basic:	
Net income	$ 10,908
Weighted-average number of shares outstanding	15,333,334
Basic net income per share	$ 0.71
Diluted:	
Net income	$ 10,908
Weighted-average number of common shares outstanding	15,333,334

Additional shares due to assumed conversion of dilutive instruments		72,380
Adjusted weighted-average number of common shares outstanding		15,405,714
Diluted net income per share	$	0.71

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

NOTE 9 THE MANAGEMENT AGREEMENT

On March 8, 2005, the Company entered into a Management Agreement pursuant to which the Manager will provide the Company investment management, administrative and related services. The Manager receives fees and is reimbursed for its expenses as follows:

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

Incentive compensation calculated as follows: (i) 25% of the dollar amount by which, (A) the Company s net income (determined in accordance with GAAP) per common share (before non-cash equity compensation expense and incentive compensation) for a quarter (based on the weighted average number of shares outstanding) exceeds, (B) an amount equal to (1) the weighted average share price of shares of common stock in the offerings of the Company, multiplied by, (2) the greater of (A) 2.00% or (B) 0.50% plus one-fourth of the Ten Year Treasury rate as defined in the Management Agreement for such quarter, multiplied by, (ii) the weighted average number of common shares outstanding for the quarter. The calculation may be adjusted for one-time events due to changes in GAAP as well as other non-cash charges upon approval of the independent directors of the Company.

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

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

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

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

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

The initial term of the Management Agreement ends March 31, 2008. The Management Agreement automatically renews for a one year term at the end of the initial term and each renewal term. With a two-thirds vote of the independent directors, the independent directors may elect to terminate the Management Agreement because of the following:

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

In the event that the Agreement is terminated based on the provisions disclosed above, the Company must pay the Manager a termination fee equal to four times the sum of the average annual base management fee and

RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

the average annual incentive during the two 12-month periods immediately preceding the date of such termination. The Company is also entitled to terminate the Management Agreement for cause (as defined therein) without payment of any termination fee.

The base and incentive management fees for the period from March 8, 2005 to December 31, 2005 were approximately $2.7 million and $344,000, respectively.

NOTE 10 RELATED-PARTY TRANSACTIONS

At December 31, 2005, the Company was indebted to the Manager for base and incentive management fees of approximately $552,000 and $344,000, respectively, and reimbursement of expenses of approximately $143,000. These amounts are included in management fee payable and accounts payable and accrued liabilities, respectively.

At December 31, 2005, the Company was indebted to LEAF Financial Corporation for servicing fees in connection with our equipment finance portfolio of approximately $41,000.

At December 31, 2005, the corporate parent of the Manager owned a 6.4% ownership interest in the Company, consisting of 1,000,000 shares purchased in the private placement. Certain officers of the Manager and its affiliates purchased 232,167 shares of the Company s common stock in the Company s private placement for $3.5 million, constituting 1.5% of the outstanding shares of the Company s common stock as of December 31, 2005. All such shares were purchased at the same price at which shares were purchased by other third party investors.

Until 1996, the Company s Chairman, Edward Cohen, was of counsel to Ledgewood Law Firm. The Company paid Ledgewood $876,000 during the period from March 8, 2005 to December 31, 2005. Mr. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliations with Ledgewood and its redemption of his interest.

NOTE 11 DISTRIBUTIONS

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

During the year ended December 31, 2005, the Company declared and paid distributions totaling $13.5 million, or $0.86 per share, including a distribution of $0.36 per share of common stock, including holders of restricted stock, $5.6 million in the aggregate, declared on December 29, 2005 and paid on January 17, 2006 to stockholders of record as of December 30, 2005. For tax purposes, 100% of the distributions declared in 2005 have been classified as ordinary income.

On January 13, 2006, the Company paid a special dividend to 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

RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

one warrant for each ten shares of common stock and restricted 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 are issuable upon exercise of the warrants.

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate value. The fair value of available-for-sale securities, derivatives and direct financing leases and notes is equal to their respective carrying value presented in the consolidated balance sheet. The fair value of loans held for investment was $571.7 million as of December 31, 2005. The fair value of cash and cash equivalents, restricted cash, interest receivable, due from broker, principal paydowns receivables, repurchase agreements (including accrued interest), warehouse agreements liability, distribution payable, management fee payable, accounts payable and accrued liabilities approximates carrying value as of December 31, 2005 due to the short-term nature of these instruments.

NOTE 13 INTEREST RATE RISK

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

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

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on mortgage-backed securities of the type in the Company s investment portfolio. The Company seeks to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. At December 31, 2005, the aggregate discount exceeded the aggregate premium on the Company s mortgage-backed securities by approximately $2.8 million.

NOTE 14 DERIVATIVE INSTRUMENTS

The Company uses derivative financial instruments to hedge all or a portion of the interest rate risk associated with its borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company s operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

Company and its affiliates may also have other financial relationships. In the event of nonperformance by the counterparties, the Company is potentially exposed to credit loss. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. On the date the Company enters into a derivative contract, the derivative is designated as either: (1) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or (2) a contract not designated as a hedge for hedge accounting (free standing derivative).

At December 31, 2005, the Company had entered into six interest rate swap contracts whereby the Company will pay an average fixed rate of 3.89% and receive a variable rate equal to one-month and three-month LIBOR. The aggregate notional amount of these contracts is $972.2 million. In addition, the Company had purchased one interest rate cap agreement whereby it reduced its exposure to variability in future cash out flows attributable to changes in LIBOR. The aggregate notional amount of this contract is $15.0 million.

The interest rate swap and cap agreements (hedge instruments) were entered into to hedge the Company s exposure to variable cash flows from forecasted variable rate financing transactions and, pursuant to SFAS No. 133, the hedge instruments were designated as cash flow hedges. The hedge instruments were evaluated at inception and the Company concluded that each hedge instrument is expected to be highly effective pursuant to the rules of SFAS No. 133, as amended and interpreted. As such, the Company accounts for the hedge instruments using hedge accounting and records them at their fair market value each accounting period with any changes in fair market value being recorded in accumulated other comprehensive income. The hedge instruments will be evaluated on an ongoing basis to determine whether they continue to qualify for hedge accounting. Each hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. Should there be any ineffectiveness in the future, the amount of the ineffectiveness will be recorded in the Company s consolidated statement of operations.

The fair value of the Company s interest rate swaps and interest rate cap was $3.0 million as of December 31, 2005. The Company had an aggregate unrealized gain of $2.8 million on the interest rate swap agreements and interest rate cap agreement as of December 31, 2005, which is recorded in accumulated other comprehensive loss.

NOTE 15 STOCK INCENTIVE PLAN

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

Up to 1,533,333 shares of common stock are available for issuance under the Plan. The share authorization, the incentive stock option limit and the terms of outstanding awards will be adjusted as the board of directors determines is appropriate in the event of a stock dividend, stock split, reclassification of shares or similar events. Upon completion of the March 2005 private placement, the Company granted the Manager 345,000 shares of restricted stock and options to purchase 651,666 shares of common stock with an exercise price of $15.00 per share under the Plan, none of which were exercisable as of December 31, 2005. The Company s non-employee directors were also granted 4,000 shares of restricted stock as part of their annual compensation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

NOTE 16 INCOME TAXES

The Company intends to elect to be taxed as a REIT for federal income tax purposes effective for its initial taxable year ending December 31, 2005. Accordingly, the Company and its qualified REIT subsidiaries are not subject to federal income tax to the extent that their distributions to stockholders satisfy the REIT requirements and certain asset, income and ownership tests. The Company may retain up to 10% of its REIT taxable income and pay corporate income taxes on this retained income while continuing to maintain its REIT status. The Company intends to distribute 100% of its 2005 ordinary REIT taxable income and, accordingly, the Company has not recorded a provision for income taxes. The Company may be subject to franchise taxes in certain states that impose taxes on REITs.

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

Resource TRS, a domestic taxable REIT subsidiary is subject to corporate income tax on its earnings. Resource TRS is inactive and as a result no provision for income taxes has been recorded. In addition, Resource TRS does not have any items which give rise to temporary differences between the GAAP consolidated financial statements and the federal income tax basis of assets and liabilities as of the consolidated balance sheet date. Accordingly, Resource TRS has no deferred income tax assets and liabilities recorded.

NOTE 17 QUARTERLY RESULTS

The following is a presentation of the quarterly results of operations for the year ended December 31, 2005:

	Period from March 8-31 (audited)	June 30 (audited)	September 30 (unaudited)	December 31 (audited)
		(in thousands, except per share data)		
Interest income	$ 694	$ 12,399	$ 21,596	$ 26,698
Interest expense	210	7,930	15,595	19,327
Net interest income	484	4,469	6,001	7,371
Other revenue (loss)		(14)	192	133
Expenses	532	2,175	2,417	2,604
Net (loss) income	$ (48)	$ 2,280	$ 3,776	$ 4,900
Net (loss) income available to Common Stockholders	$ (48)	$ 2,280	$ 3,776	$ 4,900
Net income (loss) per share basic	$ (0.00)	$ 0.15	$ 0.25	$ 0.32
Net income (loss) per share diluted	$ (0.00)	$ 0.14	$ 0.24	$ 0.32

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

NOTE 18 SUBSEQUENT EVENTS

On February 10, 2006, the Company completed the initial public offering of 4,000,000 shares of its common stock (including 1,879,200 shares sold by certain selling stockholders of the Company) at a price of $15.00 per share. The offering generated gross proceeds to the Company of approximately $31.8 million and net proceeds to the Company, after deducting the underwriters discounts and commissions and estimated offering expenses, of approximately $27.6 million. The Company did not receive any proceeds from the shares sold by the selling stockholders.

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

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RESOURCE CAPITAL CORP.

6,000,000 Shares

Common Stock

PROSPECTUS

, 2006

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PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

Item 30. Quantitative and Qualitative Disclosures about Market Risk

Contained in this prospectus included as part of this registration statement, under the caption Qualitative and Quantitative Disclosures about Market Risks in the section Management s Discussion and Analysis of Financial Condition and Results of Operations and by this reference included herein.

Item 31. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses of the sale and distribution of the securities being registered, all of which are being borne by the Registrant.

Securities and Exchange Commission registration fee	$ 13,375
NASD filing fee	13,000
Printing and engraving fees	175,000
Legal fees and expenses	125,000
Accounting fees and expenses	175,000
Transfer agent and registrar fees	3,500
Miscellaneous	95,125
Total	$ 600,000

* All expenses, other than the SEC registration fee and the NASD filing fee are estimated.

Item 32. Sales to Special Parties.

See the response to Item 33 below.

Item 33. Recent Sales of Unregistered Securities.

On January 31, 2005, in connection with the incorporation of Resource Capital Corp. (the Company), the Company issued 1,000 shares of common stock, $0.001 par value per share (the Common Stock) to Resource America, Inc. (RAI) for $1,000. Such issuance was exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(2) thereof. These shares of Common Stock were redeemed upon completion of the Company s March 2005 private offering.

On March 8, 2005, the Company sold 8,754,962 shares of its Common Stock to Credit Suisse First Boston LLC (the Initial Purchaser). The Company issued these shares of Common Stock to the Initial Purchaser in reliance on the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act. The Initial Purchaser paid the Company a purchase price of $13.95 per share, for total proceeds to the Company of $122,131,719.90. The Initial Purchaser resold all of these shares of Common Stock to (i) qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act and (ii) investors outside the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act. The offering price per share of Common Stock to qualified institutional buyers under Rule 144A and non-United States persons under Regulation S was $15.00 per share for gross proceeds of $131,324,430 and the Initial Purchaser s discount and commission was $9,192,710.10.

On March 8, 2005, the Company sold 6,578,372 shares of its Common Stock in a concurrent private placement to 207 accredited investors (as defined in Rule 501 under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 506 of Regulation D under

the Securities Act, with the Initial Purchaser acting as placement agent. The Initial Purchaser received a placement fee of $1.05 per share with respect to 5,221,206 of these shares of Common Stock. No placement fee was paid with respect to 1,357,166 of these shares. The total proceeds to the Company from the private placement of these shares was $93,193,313.70 and total placement fees paid to the placement agents was $5,482,266.30.

On March 8, 2005, the Company granted a total of 345,000 restricted shares of Common Stock to Resource Capital Manager, Inc., as manager of the Company (the Manager), pursuant to the 2005 Stock Incentive Plan of the Company (the Incentive Plan). Additionally, on each of March 8, 2005 and March 8, 2006 the Company granted, in the aggregate, 4,000 restricted shares of Common Stock and 4,224 restricted shares of Common Stock, respectively, to the Company s non-employee directors pursuant to the Incentive Plan. Such grants were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. For a more detailed description of the Incentive Plan, see Management 2005 Stock Incentive Plan in the prospectus which is a part of this registration statement.

On March 8, 2005, the Company granted options to acquire 651,666 shares of Common Stock to Resource Capital Manager, Inc., as manager of the Company, pursuant to the Incentive Plan. Such grant was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

Pursuant to the management agreement among the Company, the Manager and RAI, the Company paid the Manager 14,076 shares of Common Stock 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 the nine months ended September 30, 2006. Such grants were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. For a more detailed description of the management agreement, see Management Management Agreement in the prospectus which is a part of this registration statement.

Item 34. Indemnification of Directors and Officers.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active or deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains a provision which limits the liability of our directors and officers to the maximum extent permitted by Maryland law.

Our charter also authorizes our company, to the maximum extent permitted by Maryland law, to obligate our company to indemnify any present or former director or officer or any individual who, while a director or officer of our company and at the request of our company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding.

Our bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while a director or officer of our company and at the request of our company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. Our charter and bylaws also permit our company to indemnify and advance expenses to any individual who served a predecessor of our company in any of the capacities described above and any employee or agent of our company or a predecessor of our company.

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Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in such capacity, or in the defense of an issue, claim or matter in any such proceeding. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or are threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty; or

the director or officer actually received an improper personal benefit in money, property or services; or

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of:

a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and

a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Item 35. Treatment of Proceeds from Stock Being Registered.

None of the proceeds will be credited to an account other than the appropriate capital share account.

Item 36. Financial Statements and Exhibits.

(a) *Financial Statements.* See page F-1 for an index of the financial statements included in the registration statement.

(b) *Exhibits.* The following exhibits are filed as part of this registration statement on Form S-11:

Exhibit	Description of Document
1.1	Form of Underwriting Agreement among Resource Capital Corp. and the underwriters named therein.
3.1(1)	Amended and Restated Articles of Incorporation of Resource Capital Corp.
3.2(1)	Amended and Restated Bylaws of Resource Capital Corp.
4.1(1)	Form of Certificate for Common Stock for Resource Capital Corp.
4.2(2)	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., as Trustee, dated May 25, 2006.

4.3[2]	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated May 25, 2006.
4.4[2]	Junior Subordinated Note due 2036 in the principal amount of $25,774,000, dated May 25, 2006.

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Exhibit	Description of Document
4.5[3]	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., as Trustee, dated September 29, 2006.
4.6[3]	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated September 29, 2006.
4.7[3]	Junior Subordinated Note due 2036 in the principal amount of $25,774,000, dated September 29, 2006.
5.1[4]	Opinion of DLA Piper US LLP as to legality of the securities being issued
8.1[4]	Opinion of Ledgewood as to certain U.S. federal income tax matters
10.1[1]	Registration Rights Agreement among Resource Capital Corp. and Credit Suisse First Boston LLC for the benefit of certain holders of the common stock of Resource Capital Corp., dated as of March 8, 2005
10.2[1]	Management Agreement between Resource Capital Corp., Resource Capital Manager, Inc. and Resource America, Inc. dated as of March 8, 2005
10.3[1]	2005 Stock Incentive Plan
10.4[1]	Form of Stock Award Agreement
10.5[1]	Form of Stock Option Agreement
10.6[1]	Form of Warrant to Purchase Common Stock
10.7[2]	Junior Subordinated Note Purchase Agreement by and between Resource Capital Corp. and Resource Capital Trust I., as trustee, dated May 25, 2006.
10.8[3]	Junior Subordinated Note Purchase Agreement by and between Resource Capital Corp. and RCC Trust II, dated September 29, 2006.
21.1[4]	List of Subsidiaries of Resource Capital Corp.
23.1[4]	Consent of DLA Piper US LLP (included in Exhibit 5.1)
23.2[4]	Consent of Ledgewood (included in Exhibit 8.1)
23.3	Consent of Grant Thornton LLP
24.1[4]	Power of Attorney (included on signature page)

(1) Previously filed as an exhibit to the registrant s registration statement on Form S-11 (registration no. 333-126517).
(2) Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
(3) Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
(4) Previously filed as an exhibit to this registration statement.

Item 37. Undertakings.

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of

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any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(i) The undersigned registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the undersigned registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York on December 8, 2006.

RESOURCE CAPITAL CORP.

By: /s/ DAVID J. BRYANT
David J. Bryant
Chief Financial Officer,

Chief Accounting Officer and Treasurer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ DAVID J. BRYANT	Chief Financial Officer, Chief	December 8, 2006
David J. Bryant	Accounting Officer and Treasurer	
	and as attorney-in-fact for:	
	Edward E. Cohen, Chairman and Director	
	Jonathan E. Cohen,	
	President, Chief Executive Officer and Director	
	Walter T. Beach, Director	
	Murray S. Levin, Director	

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