Resource Capital Corp.
Form 10-Q
May 10, 2007

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _________ to __________

Commission file number: 1-32733

RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	**20-2287134**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
712 5th Avenue, 10th Floor New York, NY	**10019**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The number of outstanding shares of the registrant’s common stock on May 7, 2007 was 24,995,217 shares.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT
ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 14,517	$ 5,354
Restricted cash	48,298	30,721
Due from broker	1,883	2,010
Securities available-for-sale, at fair value	379,856	420,997
Loans held for investment	1,576,305	1,240,288
Direct financing leases and notes	87,934	88,970
Investments in unconsolidated entities	1,548	1,548
Accrued interest receivable	12,498	8,839
Principal paydown receivables	1,496	503
Other assets	3,579	3,599
Total assets	$ 2,127,914	$ 1,802,829
LIABILITIES		
Borrowings	$ 1,806,693	$ 1,463,853
Distribution payable	9,748	7,663
Accrued interest expense	9,161	6,523
Derivatives, at fair value	3,457	2,904
Accounts payable and other liabilities	3,438	4,335
Total liabilities	1,832,497	1,485,278
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; 24,995,217 and 23,821,434 shares issued and outstanding (including 303,945 and 234,224 unvested restricted shares)	25	24
Additional paid-in capital	355,707	341,400
Deferred equity compensation	-	(1,072)
Accumulated other comprehensive loss	(46,485)	(9,279)
Distributions in excess of earnings	(13,830)	(13,522)
Total stockholders' equity	295,417	317,551
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,127,914	$ 1,802,829

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
REVENUES				
Securities	$	7,396	$	16,372
Loans		30,281		11,019
Leases		1,910		506
Interest income – other		423		1,536
Interest income		40,010		29,433
Interest expense		26,789		21,202
Net interest income		13,221		8,231
Net realized gains (losses) on securities available-for-sale		70		(699)
Other income		36		–
Total revenues		13,327		7,532
EXPENSES				
Management fee expense – related party		2,032		993
Equity compensation expense – related party		486		582
Professional services		692		261
Insurance expense		121		120
General and administrative		557		426
Total expenses		3,888		2,382
NET INCOME	$	9,439	$	5,150
NET INCOME PER SHARE - BASIC	$	0.39	$	0.31
NET INCOME PER SHARE - DILUTED	$	0.38	$	0.31
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC		24,433,417		16,617,808
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED		24,837,709		16,752,520
DIVIDENDS DECLARED PER SHARE	$	0.39	$	0.33

See accompanying notes to consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2007
(in thousands, except share data)
(Unaudited)

	Common Stock								
	Shares	Amount	Additional Paid-In Capital	Deferred Equity Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity	Comprehensive Loss
Balance, January 1, 2007	23,821,434	$ 24	$ 341,400	$ (1,072)	$ (9,279)	$ –	$ (13,522)	$ 317,551	
Net proceeds from common stock offerings	650,000	1	10,134					10,135	
Offering costs			(285)					(285)	
Reclassification of deferred equity compensation			(1,072)	1,072				–	
Stock based compensation	198,905		171					171	
Stock based compensation, fair value adjustment								–	
Exercise of common stock warrant	324,878		4,873					4,873	
Amortization of stock based compensation			486					486	
Net income						9,439		9,439	$ 9,439
Securities available-for-sale, fair value adjustment					(36,675)			(36,675)	(36,675)
Designated derivatives, fair value adjustment					(530)			(530)	(530)
Distributions - Common Stock						(9,439)	(309)	(9,748)	
Comprehensive loss									$ (27,766)
Balance,	24,995,217	$ 25	$ 355,707	$ –	$ (46,484)	$ –	$ (13,831)	$ 295,417	

March 31,
2007

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,439	$ 5,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	175	56
Amortization of discount on investments, net	(293)	(157)
Amortization of debt issuance costs	523	279
Amortization of stock based compensation	486	582
Non-cash incentive compensation to the manager	186	31
Net realized losses (gains) on derivative instruments	15	(480)
Net realized (losses) gains on investments	(70)	699
Changes in operating assets and liabilities:		
(Increase) decrease in restricted cash	(17,577)	3,552
Increase in accrued interest receivable, net of purchased interest	(3,551)	(1,449)
Decrease in due from broker	127	525
(Increase) decrease in principal paydowns receivable	(992)	2,423
Increase (decrease) in management and incentive fee payable	26	(114)
Increase in security deposits	78	1,011
(Decrease) increase in accounts payable and accrued liabilities	(1,189)	328
Increase (decrease) in accrued interest expense	2,752	(1,129)
(Increase) decrease in other assets	(149)	121
Net cash (used in) provided by operating activities	(10,014)	11,428
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities available-for-sale	(28,916)	(4,724)
Principal payments on securities available-for-sale	3,707	36,942
Proceeds from sale of securities available-for-sale	29,867	131,577
Purchase of loans	(245,921)	(117,097)
Principal payments received on loans	98,224	37,685
Proceeds from sales of loans	65,713	34,543
Purchase of direct financing leases and notes	(6,747)	(42,247)
Proceeds from and payments received on direct financing leases and notes	6,615	4,594
Proceeds from sale of direct financing leases and notes	1,214	–
Net cash provided by (used in) investing activities	(76,244)	81,273
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (net of offering costs of $285 and $2,061)	14,895	27,604
Proceeds from borrowings:		
Repurchase agreements	180,058	2,622,885
Secured term facility	6,387	55,767
Payments on borrowings:		
Repurchase agreements	(91,682)	(2,773,250)

Secured term facility		(6,574)		–
Unsecured revolving credit facility		–		(15,000)
Settlement of derivative instruments		–		881
Distributions paid on common stock		(7,663)		(5,646)
Net cash provided by (used in) financing activities		95,421		(86,759)
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,163		5,942
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		5,354		17,729
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	14,517	$	23,671
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Distributions on common stock declared but not paid	$	9,748	$	5,877
Issuance of restricted stock	$	3,176	$	–
Purchase of loans on warehouse line	$	(254,012)	$	(69,832)
Proceeds from warehouse line	$	254,012	$	69,832
SUPPLEMENTAL DISCLOSURE:				
Interest expense paid in cash	$	26,090	$	32,413

See accompanying notes to consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(Unaudited)

NOTE 1 - ORGANIZATION AND BASIS OF QUARTERLY PRESENTATION

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 commercial real estate-related assets and commercial finance assets. The Company’s investment activities are managed by Resource Capital Manager, Inc. (‘‘Manager’’) pursuant to a management agreement (‘‘Management Agreement’’). The Manager is a wholly owned indirect subsidiary of Resource America, Inc. (“RAI”) (Nasdaq: REXI).

The Company has three direct 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 real estate investments, including commercial real estate loans. RCC Commercial holds bank loan investments and real estate investments, including commercial and residential real estate-related securities. Resource TRS holds all the Company’s equipment leases and notes. RCC Real Estate owns 100% of the equity interest in Resource Real Estate Funding CDO 2006-1 (“RREF 2006-1”), a Cayman Islands limited liability company and qualified REIT subsidiary (“QRS”). RREF 2006-1 was established to complete a collateralized debt obligation (“CDO”) issuance secured by a portfolio of commercial real estate loans. 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. RCC Commercial owns 100% of the equity interest in Apidos CDO III, Ltd. (“Apidos CDO III”), a Cayman Islands limited liability company and TRS. Apidos CDO III was established to complete a CDO secured by a portfolio of bank loans. RCC Commercial owns 100% of the equity interest in Ischus CDO II, Ltd. (“Ischus CDO II”), a Cayman Islands limited liability company and QRS. Ischus CDO II was established to complete a CDO issuance secured by a portfolio of mortgage-backed and other asset-backed securities. As of March 31, 2007, the Company had also formed Apidos Cinco CDO, Ltd. (“Apidos Cinco CDO”), a Cayman Islands limited liability company that the Company has elected to treat as a TRS. RCC Commercial purchased 10,000 preference shares in the amount of $5.0 million, constituting 100% of the equity in the CDO, during the warehouse period and intends to purchase 100% of the equity interest in Apidos Cinco CDO upon termination of the warehouse agreement. Apidos Cinco CDO was established to complete the Company’s third CDO that will be secured by a portfolio of bank loans.

The consolidated financial statements and the information and tables contained in the notes to the consolidated financial statements are unaudited. However, in the opinion of management, these interim financial statements include all adjustments necessary to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the period ended December 31, 2006. The results of operations for the three months ended March 31, 2007 may not necessarily be indicative of the results of operations for the full fiscal year ending December 31, 2007.

Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 presentation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
MARCH 31, 2007
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

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 real estate investment trust (“REIT”) subsidiary, because it is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code of 1986, as amended. As of March 31, 2007 and December 31, 2006, Resource TRS recognized a $145,000 and $67,000, respectively, provision for income taxes.

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

Allowance for Loan and Lease Losses

At March 31, 2007, all of the Company’s loans were 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 permanent impairment has occurred. Accordingly, as of March 31, 2007, the Company had not recorded an allowance for loan losses.

Stock Based Compensation

The Company has adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share Based Payment,” as of January 1, 2006. Issuances of restricted stock and options are accounted for using the fair value based methodology prescribed by SFAS No. 123(R) whereby the fair value of the award is measured on the grant date and expensed monthly in stockholders’ equity through an increase to additional paid-in capital and an offsetting entry to equity compensation expense - related party on the consolidated statements of income. For issuances to the Company’s Manager and to non-employees, the unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. For issuance to the Company’s four non-employee directors, the amount is not remeasured under the fair value-based method. The compensation for each of these issuances is amortized over the service period and included in equity compensation expense (see Note 9).

Variable Interest Entities

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. On May 9, 2006, the Company terminated its Apidos CDO III warehouse agreement with Citigroup upon the closing of the CDO. The warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO III. The Company owns 100% of the equity issued by Apidos CDO III and is deemed to be the primary beneficiary. As a result, the Company consolidated Apidos CDO III at December 31, 2006.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
MARCH 31, 2007
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Variable Interest Entities – (Continued)

During January 2007, the Company entered into warehouse agreement with an affiliate of Credit Suisse Securities (USA) LLC, ("CS") providing that CS will fund the purchase of bank loans by Apidos Cinco CDO. On January 8, 2007, the Company purchased 10,000 preference shares for $5.0 million from Apidos Cinco CDO and guaranteed up to the first $10.0 million in losses. The Company intends to purchase 100% of the equity issued by Apidos Cinco CDO upon termination of the warehouse agreement. As a result, the Company consolidated Apidos Cinco CDO at March 31, 2007.

Accounting for Certain Mortgage-Backed Securities 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's policy is to currently record the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated statements of income. However, under a certain technical interpretation of SFAS 140, "Accounting for Transfers and Servicing of Financial Assets," such transactions may not qualify as a purchase. Management of the Company believes, based upon its determination that the method it has adopted 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 consolidated financial statements. Instead, the Company would present the net investment in these transactions with the counterparty as a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of March 31, 2007, the Company had no transactions in mortgage-backed securities where debt instruments were financed with the same counterparty. As of December 31, 2006, the Company had one transaction where debt instruments were financed with the same counterparty.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115, ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS 159 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value in GAAP and expands the disclosure of fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently determining the effect, if any, the adoption of SFAS 157 will have on its financial statements.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
MARCH 31, 2007
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Recent Accounting Pronouncements – (Continued)

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance for how errors should be evaluated to assess materiality from a quantitative perspective. SAB 108 permits companies to initially apply its provisions by either restating prior financial statements or recording the cumulative effect of initially applying the approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment to retained earnings. SAB 108 is required to be adopted for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on the Company's financial statements.

In July 2006, the FASB issued Interpretation No. 48, or FIN 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of SFAS 109." FIN 48 clarifies the accounting for uncertainty in income taxes by creating a framework for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions that they have taken or expect to take in a tax return. The Company adopted FIN 48 on January 1, 2007. The adoption had no material effect on the Company's financial statements.

NOTE 3 - RESTRICTED CASH

Restricted cash consists of $38.3 million of principal and interest payments collected on investments held in four CDO trusts, a $2.4 million credit facility reserve used to fund future investments that will be acquired by the Company's two closed bank loan CDO trusts, a $100,000 expense reserve used to cover CDO operating expenses and $5.0 million of cash held in escrow in conjunction with Apidos CDO Cinco. The remaining $2.5 million interest reserve and security deposits held in connection with the Company's equipment lease and loan portfolio.

NOTE 4 - SECURITIES AVAILABLE-FOR-SALE

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

	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value (1)
March 31, 2007:				
ABS-RMBS	$ 345,842	$ 176	$ (41,735)	$ 304,283
Commercial mortgage-backed	27,947	3	(830)	27,120
Commercial mortgage-backed private placement	27,427	12	(117)	27,322
Other asset-backed	21,346	75	(290)	21,131
Total	$ 422,562	$ 266	$ (42,972)	$ 379,856
December 31, 2006:				
ABS-RMBS	$ 348,496	$ 913	$ (6,561)	$ 342,848
Commercial mortgage-backed	27,951	23	(536)	27,438
	30,055	–	–	30,055

Commercial mortgage-backed private placement								
Other asset-backed		20,526		130		–		20,656
Total	$	427,028	$	1,066	$	(7,097)	$	420,997

(1) As of March 31, 2007 and December 31, 2006, all securities were pledged as collateral security under related financings.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
MARCH 31, 2007
(Unaudited)

NOTE 4 - SECURITIES AVAILABLE-FOR-SALE – (Continued)

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

Weighted Average Life	Fair Value	Amortized Cost	Weighted Average Coupon
March 31, 2007:			
Less than one year	$ 7,683	$ 9,560	7.10%
Greater than one year and less than five years	314,027	353,884	6.86%
Greater than five years and less than ten years	53,396	54,279	6.07%
Ten years or greater	4,750	4,839	6.02%
Total	$ 379,856	$ 422,562	6.76%
December 31, 2006:			
Less than one year	$ –	$ –	–%
Greater than one year and less than five years	378,057	383,700	6.78%
Greater than five years and less than ten years	39,931	40,328	6.07%
Ten years or greater	3,009	3,000	7.23%
Total	$ 420,997	$ 427,028	6.71%

The contractual maturities of the securities available-for-sale range from February 2014 to March 2051.

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2007:						
ABS-RMBS	$ 221,365	$ (23,324)	$ 75,137	$ (18,411)	$ 296,502	$ (41,735)
Commercial mortgage-backed	7,701	(184)	19,029	(646)	26,730	(830)
Commercial mortgage-backed private placement	14,722	(117)	–	–	14,722	(117)
Other asset-backed	8,276	(290)	–	–	8,276	(290)
Total temporarily impaired securities	$ 252,064	$ (23,915)	$ 94,166	$ (19,057)	$ 346,230	$ (42,972)
December 31, 2006:						
ABS-RMBS	$ 143,948	$ (2,580)	$ 86,712	$ (3,981)	$ 230,660	$ (6,561)
	–	–	19,132	(536)	19,132	(536)

Commercial mortgage-backed												
Other asset-backed		–		–		–		–		–		–
Total temporarily impaired securities	$	143,948	$	(2,580)	$	105,844	$	(4,517)	$	249,792	$	(7,097)

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
MARCH 31, 2007
(Unaudited)

NOTE 4 - SECURITIES AVAILABLE-FOR-SALE – (Continued)

The temporary impairment of the securities available-for-sale results from the fair value of the securities falling below their amortized cost basis and is primarily attributed to changes in interest rates. 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. As such, the Company does not believe any of the securities held are other-than-temporarily impaired at March 31, 2007 and December 31, 2006, respectively.

NOTE 5 - LOANS HELD FOR INVESTMENT

The following is a summary of loans (in thousands):

Loan Description	Principal	Unamortized (Discount) Premium	Amortized Cost [(1)]
March 31, 2007:			
Bank loans	$ 870,419	$ 1,214	$ 871,633
Commercial real estate loans:			
Whole loans	270,189	(2,372)	267,817
A notes	22,500	12	22,512
B notes	195,734	134	195,868
Mezzanine loans	223,522	(5,047)	218,475
Total commercial real estate loans	711,945	(7,273)	704,672
Total	$ 1,582,364	$ (6,059)	$ 1,576,305
December 31, 2006:			
Bank loans	$ 613,322	$ 908	$ 614,230
Commercial real estate loans:			
Whole loans	190,768	–	190,768
A notes	42,515	–	42,515
B notes	203,553	33	203,586
Mezzanine loans	194,776	(5,587)	189,189
Total commercial real estate loans	631,612	(5,554)	626,058
Total	$ 1,244,934	$ (4,646)	$ 1,240,288

(1) Substantially all loans are pledged as collateral under various borrowings at March 31, 2007 and December 31, 2006.

At March 31, 2007, the Company's bank loan portfolio consisted of $871.6 million of floating rate loans, which bear interest ranging between the London Interbank Offered Rate ("LIBOR") plus 1.38% and LIBOR plus 6.25% with maturity dates ranging from November 2007 to August 2022.

At December 31, 2006, the Company's bank loan portfolio consisted of $614.0 million of floating rate loans, which bear interest ranging between the LIBOR plus 1.38% and LIBOR plus 7.50% with maturity dates ranging from March 2008 to August 2022, and a $249,000 fixed rate loan, which bears interest at 6.25% with a maturity date of September 2015.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
MARCH 31, 2007
(Unaudited)

NOTE 5 - LOANS HELD FOR INVESTMENT– (Continued)

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

Description	Quantity	Amortized Cost	Contracted Interest Rates	Range of Maturity Dates
March 31, 2007:				
Whole loans, floating rate	15	$ 233,787	LIBOR plus 2.00% to LIBOR plus 3.65%	August 2007 to March 2010
Whole loans, fixed rate	3	34,030	6.98% to 7.52%	February 2010 to March 2012
A notes, floating rate	1	22,512	LIBOR plus 1.35%	April 2008
B notes, floating rate	9	139,571	LIBOR plus 1.90% to LIBOR plus 6.25%	May 2007 to October 2008
B notes, fixed rate	3	56,297	7.00% to 8.68%	July 2011 to July 2016
Mezzanine loans, floating rate	9	134,454	LIBOR plus 2.15% to LIBOR plus 4.50%	August 2007 to February 2009
Mezzanine loans, fixed rate	8	84,021	5.78% to 11.00%	April 2007 to September 2016
Total	48	$ 704,672		
December 31, 2006:				
Whole loans, floating rate	9	$ 190,768	LIBOR plus 2.50% to LIBOR plus 3.65%	August 2007 to January 2010
A notes, floating rate	2	42,515	LIBOR plus 1.25% to LIBOR plus 1.35%	January 2008 to April 2008
B notes, floating rate	10	147,196	LIBOR plus 1.90% to LIBOR plus 6.25%	April 2007 to October 2008
B notes, fixed rate	3	56,390		July 2011 to

			7.00% to 8.68%	July 2016
Mezzanine loans, floating rate	7	105,288	LIBOR plus 2.20% to LIBOR plus 4.50%	August 2007 to October 2008
Mezzanine loans, fixed rate	8	83,901	5.78% to 11.00%	August 2007 to September 2016
Total	39	$ 626,058		

As of March 31, 2007 and December 31, 2006, the Company had not recorded an allowance for loan losses. At March 31, 2007 and December 31, 2006, all of the Company's loans were current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and secondary market prices, the Company did not identify any loans with characteristics indicating that permanent impairment had occurred.

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NOTE 6 - DIRECT FINANCING LEASES AND NOTES

The Company's direct financing leases and notes have weighed average initial lease and note terms of 72 months and 73 months, as of March 31, 2007 and December 31, 2006. The interest rates on leases and notes receivable range from 6.8% to 13.4% and from 6.1% to 13.4% as of March 31, 2007 and December 31, 2006, respectively. Investments in direct financing leases and notes, net of unearned income, were as follows (in thousands):

	March 31, 2007	December 31, 2006
Direct financing leases, net	$ 30,296	$ 30,270
Notes receivable	57,638	58,700
Total	$ 87,934	$ 88,970

The components of direct financing leases are as follows (in thousands):

	March 31, 2007	December 31, 2006
Total future minimum lease payments	$ 36,030	$ 36,008
Unguaranteed residual	11	11
Unearned income	(5,745)	(5,749)
Total	$ 30,296	$ 30,270

NOTE 7 - BORROWINGS

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

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NOTE 7 - BORROWINGS – (Continued)

Borrowings at March 31, 2007 and December 31, 2006 is summarized in the following table (dollars in thousands):

		Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity		Value of Collateral
March 31, 2007:						
Repurchase Agreements [1]	$	208,947	6.32%	19 days	$	270,892
RREF CDO 2006-1 Senior Notes [2]		260,048	6.14%	39.4 years		319,368
Ischus CDO II Senior Notes [3]		371,307	5.80%	33.4 years		352,534
Apidos CDO I Senior Notes [4]		317,483	5.83%	10.3 years		341,137
Apidos CDO III Senior Notes [5]		258,863	5.81%	13.2 years		278,005
Apidos Cinco CDO Warehouse Agreement [6]		254,012	5.95%	91 days		253,570
Secured Term Facility		84,485	6.33%	3.0 years		87,934
Unsecured Junior Subordinated Debentures [7]		51,548	9.31%	29.4 years		–
Total	$	1,806,693	6.06%	17.3 years	$	1,903,440
December 31, 2006:						
Repurchase Agreements [1]	$	120,457	6.18%	16 days	$	149,439
RREF CDO 2006-1 Senior Notes [2]		259,902	6.17%	39.6 years		334,682
Ischus CDO II Senior Notes [3]		371,159	5.83%	33.6 years		390,942
Apidos CDO I Senior Notes [4]		317,353	5.83%	10.6 years		339,858
Apidos CDO III Senior Notes [5]		258,761	5.81%	13.5 years		273,932
Secured Term Facility		84,673	6.33%	3.25 years		88,970
Unsecured Junior Subordinated Debentures [7]		51,548	9.32%	29.7 years		–
Total	$	1,463,853	6.07%	21.5 years	$	1,577,823

(1) For March 31, 2007, collateral consists of securities available-for-sale of $27.3 million and loans of $243.6 million. For December 31, 2006, collateral consists of securities available-for-sale of $30.1 million and loans of $119.4 million.
(2) Amount represents principal outstanding of $265.5 million less unamortized issuance costs of $5.5 million and $5.6 million as of March 31, 2007 and December 31, 2006, respectively.
(3) Amount represents principal outstanding of $376.0 million less unamortized issuance costs of $4.7 million and $4.8 million as of March 31, 2007 and December 31, 2006, respectively.
(4) Amount represents principal outstanding of $321.5 million less unamortized issuance costs of $4.0 million and $4.1 million as of March 31, 2007 and December 31, 2006, respectively.
(5) Amount represents principal outstanding of $262.5 million less unamortized issuance costs of $3.6 million and $3.7 million as of March 31, 2007 and December 31, 2006, respectively.
(6) The value of the collateral does not include $5.0 million held in escrow that is reported on the consolidated balance sheet as a part of restricted cash as of March 31, 2007.
(7)

Amount represents junior subordinated debentures issued to Resource Capital Trust I and RCC Trust II in connection with each respective trust’s issuance of trust preferred securities in May 2006 and September 2006, respectively.

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NOTE 7 - BORROWINGS – (Continued)

The Company had repurchase agreements with the following counterparties at the dates indicated (dollars in thousands):

		Amount at Risk (1)	Weighted Average Maturity in Days	Weighted Average Interest Rate
March 31, 2007:				
Credit Suisse Securities (USA) LLC	$	1,434	24	5.48%
Bear, Stearns International Limited	$	17,494	16	6.37%
Column Financial Inc, a subsidiary of Credit Suisse Securities (USA) LLC	$	41,788	18	6.43%
J.P. Morgan Securities, Inc.	$	2,566	30	5.78%
December 31, 2006:				
Credit Suisse Securities (USA) LLC	$	863	11	5.40%
Bear, Stearns International Limited	$	15,538	17	6.43%
Column Financial Inc, a subsidiary of Credit Suisse Securities (USA) LLC	$	13,262	18	6.42%

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

Repurchase and Credit Facilities

In August 2006, the Company’s subsidiary, RCC Real Estate SPE 2, LLC, entered into a master repurchase agreement with Column Financial, Inc., a wholly-owned subsidiary of CS 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. These are 30 day contracts. The Company has guaranteed RCC Real Estate SPE 2, LLC’s obligations under the repurchase agreement to a maximum of $300.0 million. At March 31, 2007, RCC Real Estate SPE 2, LLC had borrowed $141.6 million, all of which was guaranteed by the Company, with a weighted average interest rate of one-month LIBOR plus 1.01%, which was 6.43%. At December 31, 2006, RCC Real Estate SPE 2, LLC had borrowed $54.5 million, all of which was guaranteed by the Company, with a weighted average interest rate of LIBOR plus 1.07%, which was 6.42% at December 31, 2006.

In March 2006, the Company entered into a secured term credit facility with Bayerische Hypo - und Vereinsbank AG to finance the purchase of equipment leases and notes. The maximum amount of the Company’s borrowing under this facility is $100.0 million. Borrowings under this facility bear interest at one of two rates, determined by asset class.

The Company paid $300,000 in commitment fees during the quarter ended March 31, 2006. Commitment fees are being amortized into interest expense using the effective yield method over the life of the facility and are recorded in the consolidated statements of income. The Company paid $13,000 in unused line fees for the quarter ended March 31, 2007. Unused line fees are charged immediately into interest expense and are recorded in the consolidated statements of income. As of March 31, 2007, the Company had borrowed $84.5 million at a weighted average interest rate of 6.33%. As of December 31, 2006, the Company had borrowed $84.7 million at a weighted average interest rate of 6.33%. The facility expires March 2010.

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NOTE 7 - BORROWINGS – (Continued)

Repurchase and Credit Facilities - (continued)

In December 2005, the Company entered into a $15.0 million unsecured revolving credit facility with Commerce Bank, N.A. This facility was increased to $25.0 million in April 2006. 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. The Company paid Commerce $250,000 in commitment fees to enter into the facility and to increase the facility. Commitment fees are being amortized into interest expense using the effective yield method over the life of the facility and are recorded in the consolidated statements of income. The Company paid $10,000 and $3,000 and in unused line fees as of March 31, 2007 and 2006, respectively. Unused line fees are expensed immediately into interest expense and are recorded in the consolidated statements of income. As of March 31, 2007 and December 31, 2006, no borrowings were outstanding under this facility.

The Company has received a waiver for the period ended March 31, 2007 from Commerce Bank, N.A. with respect to its non-compliance with the consolidated tangible net worth covenant. The waiver was required due to the Company's unrealized loss on its ABS-RMBS portfolio during the three months ended March 31, 2007. Under the covenant, the Company is required to maintain a consolidated net worth (stockholder's equity) of at least $195.0 million plus 90% of the net proceeds of any capital transactions, measured at each quarter end, as further described in the agreement.

In August 2005, the Company's subsidiary, RCC Real Estate, Inc. ("RCC Real Estate"), entered into a master repurchase agreement with Bear, Stearns International Limited ("Bear Stearns") 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. These are 30 day contracts. The Company has guaranteed RCC Real Estate's obligations under the repurchase agreement to a maximum of $150.0 million. At March 31, 2007, RCC Real Estate had borrowed $43.9 million, all of which was guaranteed by the Company, with a weighted average interest rate of one-month LIBOR plus 1.05%, which was 6.37% at March 31, 2007. At December 31, 2006, RCC Real Estate had borrowed $36.7 million, all of which was guaranteed by the Company, with a weighted average interest rate of one-month LIBOR plus 1.08%, which was 6.43% at December 31, 2006.

RCC Real Estate had received a waiver from Bear Stearns with respect to compliance with a financial covenant in the master repurchase agreement. The waiver was required due to the Company's net loss during the three months ended September 30, 2006, which was caused by the loss realized by the Company on the sale of the remainder of its portfolio of agency ABS-RMBS. Under the covenant, the Company is required to have no less than $1.00 of net income in any period of four consecutive calendar months. The waiver was effective through January 31, 2007. As of the end of the waiver period, the Company was in compliance with the covenant.

In March 2005, the Company entered into a master repurchase agreement with CS to finance the purchase of agency ABS-RMBS securities. In December 2006, the Company began using this facility to finance the purchase of CMBS-private placement. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. These are 30 days contracts. At March 31, 2007, the Company had borrowed $13.3 million with a weighted average interest rate of 5.48%. At December 31, 2006, the

Company had borrowed $29.3 million with a weighted average interest rate of 5.40%.

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NOTE 7 - BORROWINGS – (Continued)

Repurchase and Credit Facilities - (continued)

The Company’s subsidiary, RCC Commercial, Inc., has received a waiver from CS as of and for the period ended March 31, 2007 with respect to its non-compliance with the net asset value decline condition, as defined in the agreement. The waiver was required due to the unrealized loss on its ABS-RMBS portfolio during the three months ended March 31, 2007.

In March 2005, the Company entered into a master repurchase agreement with J.P. Morgan Securities Inc. to finance the purchase of agency ABS-RMBS securities. In March 2007, the Company began using this facility to finance the purchase of CMBS-private placement. Each repurchase transaction specifies its own terms, such as identification of the assets subject to the transaction, sales price, repurchase price, rate and term. These are 30 day contracts. At March 31, 2007, the Company had borrowed $10.1 million with a weighted average interest rate of 5.78%. As of December 31, 2006, no borrowings were outstanding under this facility.

Collateralized Debt Obligations

Apidos Cinco CDO Warehouse Agreement

In January 2007, the Company formed Apidos Cinco CDO and began borrowing on a warehouse facility provided by Credit Suisse Securities (USA) LLC, NA to purchase bank loans to include in Apidos Cinco CDO. This agreement, secured by a $5.0 million purchase of 10,000 preference shares of Apidos Cinco CDO, expires upon the closing of Apidos Cinco CDO. At March 31, 2007, Apidos Cinco CDO had borrowed $254.0 million. The facility bears interest at a rate of LIBOR plus 0.625%, which was 5.95% at March 31, 2007. RCC Commercial intends to purchase 100% of the equity in Apidos Cinco CDO upon execution of the CDO transaction.

Resource Real Estate Funding CDO 2006-1

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

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NOTE 7 - BORROWINGS – (Continued)

Collateralized Debt Obligations – (Continued)

Resource Real Estate Funding CDO 2006-1 - (continued)

The senior notes issued to investors by RREF 2006-1 consist of the following classes: (i) $129.4 million of class A-1 notes bearing interest at one-month LIBOR plus 0.32%; (ii) $17.4 million of class A-2 notes bearing interest at one-month LIBOR plus 0.35%; (iii) $5.0 million of class A-2 notes bearing interest at a fixed rate of 5.842%; (iv) $6.9 million of class B notes bearing interest at one-month LIBOR plus 0.40%; (v) $20.7 million of class C notes bearing interest at one-month LIBOR plus 0.62%; (vi) $15.5 million of class D notes bearing interest at one-month LIBOR plus 0.80%; (vii) $20.7 million of class E notes bearing interest at one-month LIBOR plus 1.30%; (viii) $19.8 million of class F notes bearing interest at one-month LIBOR plus 1.60%; (ix) $17.3 million of class G notes bearing interest at one-month LIBOR plus 1.90%; (x) $12.9 million of class H notes bearing interest at one-month LIBOR plus 3.75%, (xi) $14.7 million of Class J notes bearing interest at a fixed rate of 6.00% and (xii) $28.4 million of Class K notes bearing interest at a fixed rate of 6.00%. As a result of the Company's ownership of the Class J and K senior notes, these notes eliminate in consolidation. All of the notes issued mature in August 2046, although the Company has the right to call the notes anytime after August 2016 until maturity. The weighted average interest rate on all notes issued to investors was 6.14% at March 31, 2007.

Apidos CDO III

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

The senior notes issued to investors by Apidos CDO III consist of the following classes: (i) $212.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) $19.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.45%; (iii) $15.0 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) $10.5 million of class C notes bearing interest at 3-month LIBOR plus 1.75%; and (v) $6.0 million of class D notes bearing interest at 3-month LIBOR plus 4.25%. All of the notes issued mature on June 12, 2020, although the Company has the right to call the notes anytime after June 12, 2011 until maturity. The weighted average interest rate on all notes was 5.81% at March 31, 2007.

Apidos CDO I

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

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NOTE 7 - BORROWINGS – (Continued)

Collateralized Debt Obligations – (Continued)

Apidos CDO I - (continued)

The senior notes issued to investors by Apidos CDO I consist of the following classes: (i) $265.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) $15.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.42%; (iii) $20.5 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) $13.0 million of class C notes bearing interest at 3-month LIBOR plus 1.85%; and (v) $8.0 million of class D notes bearing interest at a fixed rate of 9.251%. All of the notes issued mature on July 27, 2017, although the Company has the right to call the notes anytime after July 27, 2010 until maturity. The weighted average interest rate on all notes was 5.83% at March 31, 2007.

Ischus CDO II, Ltd.

In July 2005, the Company closed Ischus CDO II, a $403.0 million CDO transaction that provides financing for mortgage-backed and other asset-backed securities. The investments held by Ischus CDO II collateralize the debt it issued 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. In August 2006, upon approval by the Company's Board of Directors, the preference shares of Ischus CDO II were transferred to the Company's wholly-owned subsidiary, RCC Commercial, Inc. ("RCC Commercial"). As of March 31, 2007, RCC Commercial owned 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 Ischus CDO II.

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 one-month LIBOR plus 0.27%; (ii) $50.0 million of class A-1B delayed draw notes bearing interest on the drawn amount at one-month LIBOR plus 0.27%; (iii) $28.0 million of class A-2 notes bearing interest at one-month LIBOR plus 0.45%; (iv) $55.0 million of class B notes bearing interest at one-month LIBOR plus 0.58%; (v) $11.0 million of class C notes bearing interest at one-month LIBOR plus 1.30%; and (vi) $18.0 million of class D notes bearing interest at one-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. The weighted average interest rate on all notes was 5.80% at March 31, 2007.

Trust Preferred Securities

In May 2006 and September 2006, the Company formed Resource Capital Trust I ("RCTI") and RCC Trust II ("RCTII"), respectively, for the sole purpose of issuing and selling trust preferred securities. In accordance with FASB Interpretation No. 46R ("FIN 46R"), although the Company owns 100% of the common shares of RCTI and RCTII, RCTI and RCTII are not consolidated into the Company's consolidated financial statements because the Company is not deemed to be the primary beneficiary of these entities. Each respective trust issued $25.0 million of preferred shares to unaffiliated investors.

In connection with the issuance and sale of the trust preferred securities, the Company issued junior subordinated debentures to RCTI and RCTII of $25.8 million each, representing the Company's maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCTI and RCTII at March 31, 2007 were $802,000 and $808,000, respectively. These costs, which are included in other assets, are being amortized into interest expense using the effective yield method over a ten year period.

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NOTE 7 - BORROWINGS – (Continued)

Trust Preferred Securities – (Continued)

The rights of holders of common shares of RCTI and RCTII are subordinate to the rights of the holders of preferred shares only in the event of a default; otherwise, the common shareholders' economic and voting rights are pari passu with the preferred shareholders. The preferred and common securities of RCTI and RCTII are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures. Unless earlier dissolved, RCTI will dissolve on May 25, 2041 and RCTII will dissolve on September 29, 2041. The junior subordinated debentures are the sole asset of RCTI and RCTII and mature on June 30, 2036 and October 30, 2036, respectively, and may be called at par by the Company any time after June 30, 2011 and October 30, 2011, respectively. Interest is payable for RCTI and RCTII quarterly at a floating rate equal to three-month LIBOR plus 3.95% per annum. The rates for RCTI and RCTII, at March 31, 2007, were 9.30% and 9.31%, respectively. The Company records its investments in RCTI and RCTII's common shares of $774,000 each as investments in unconsolidated entities and records dividend income upon declaration by RCTI and RCTII.

NOTE 8 - CAPITAL STOCK

On December 19, 2006, the Company sold 6,000,000 shares of common stock, at a price of $16.50 per share, in a public offering. The Company received net proceeds of approximately $93.0 million after payment of underwriting discounts and commissions of approximately $5.4 million and other offering expenses of approximately $600,000. On January 8, 2007, pursuant to a partial exercise by the underwriters of their over-allotment option, the Company sold 650,000 shares of common stock at a price of $16.50 per share. The Company received net proceeds of approximately $10.1 million after payment of underwriting discounts and commissions of approximately $590,000.

NOTE 9 - SHARE-BASED COMPENSATION

The following table summarizes restricted common stock transactions:

	Manager	Non-Employee Directors	Non-Employees	Total
Unvested shares as of December 31, 2006	230,000	4,224	–	234,224
Issued	–	4,404	184,541	188,945
Vested	(115,000)	(4,224)	–	(119,224)
Forfeited	–	–	–	–
Unvested shares as of March 31, 2007	115,000	4,404	184,541	303,945

Pursuant to SFAS No. 123(R), the Company is required to value any unvested shares of restricted common stock granted to the Manager at the current market price. The fair value of the unvested shares of restricted stock granted during the respective periods, including shares issued to the non-employee directors, was $3.3 million and $60,000 at March 31, 2007 and December 31, 2006, respectively.

On March 8, 2005, the Company granted 345,000 shares of restricted common stock and options to purchase 651,666 common shares at an exercise price of $15.00 per share, to the Manager. One third of the shares of restricted stock and options vested on each of March 8, 2006 and March 8, 2007. On March 8, 2005 and March 8, 2006, the Company also granted 4,000 and 4,224 shares of restricted common stock, respectively, to the Company's non-employee directors as part of their annual compensation. These shares vested in full on March 8, 2006 and March 8, 2007, respectively.

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NOTE 9 - SHARED-BASED COMPENSATION – (Continued)

On January 5, 2007, the Company issued 184,541 shares of restricted common stock under its 2005 Stock Incentive Plan. These restricted shares vest 33.3% on January 5, 2008. The balance will vest quarterly thereafter through January 5, 2010.

On February 1, 2007 and March 8, 2007, the Company granted 816 and 3,588 shares of restricted stock, respectively, to the Company's non-employee directors as part of their annual compensation. These shares will vest in full on the first anniversary of the date of grant.

The following table summarizes common stock option transactions:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2007	651,666	$ 15.00		
Granted	–	–		
Exercised	–	–		
Forfeited	–	–		
Outstanding as of March 31, 2007	651,666	$ 15.00	8	$ 502
Exercisable at March 31, 2007	1,444	$ 15.00	8	$ 1

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

The following table summarizes the status of the Company's unvested shares as of March 31, 2007:

Unvested Shares	Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2007	650,944	$ 15.00
Granted	–	15.00
Vested	(722)	15.00
Forfeited	–	–
Unvested at March 31, 2007	650,222	$ 15.00

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