Resource Capital Corp.
Form 424B4
February 07, 2006

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PROSPECTUS

4,000,000 Shares

Common Stock

This is our initial public offering. We are offering a total of 2,120,800 shares of our common stock in this offering. The selling stockholders described in this prospectus are offering an additional 1,879,200 shares of common stock. We will not receive any of the proceeds from the sale of common stock by the selling stockholders.

We are externally managed and advised by Resource Capital Manager, Inc., an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI). We intend to qualify and will elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes for our taxable year ending December 31, 2005 and subsequent tax years.

Before this offering, there has been no public market for our common stock. Our common stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol RSO.

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

Investing in our common stock involves risks. See Risk Factors beginning on page 23 of this prospectus for a discussion of these risk factors.

	Public Offering Price	Underwriting Discounts and Commissions	Proceeds to Us, Before Expenses	Proceeds to Selling Stockholders, Before Expenses
Per share	$ 15.00	$ 1.0125	$ 13.9875	$ 13.9875
Total	$ 60,000,000	$ 4,050,000	$ 29,664,690	$ 26,285,310

We have granted the underwriters an option to purchase up to an additional 600,000 shares of our common stock at the initial public offering price, less underwriting discounts and commissions, within 30 days after the date of this prospectus solely to cover over-allotments, if any.

At our request, one of the underwriters has reserved for sale to Resource Capital Investor, Inc., an affiliate of Resource America, up to 1,000,000 shares of our common stock offered by this prospectus at the initial public offering price per share, 900,000 shares of which have been purchased.

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

representation to the contrary is a criminal offense.

Delivery of the shares of our common stock is expected to be made in book-entry form on or about February 10, 2006.

CREDIT SUISSE FRIEDMAN BILLINGS RAMSEY CITIGROUP JPMORGAN
BEAR, STEARNS & CO. INC. PIPER JAFFRAY FLAGSTONE SECURITIES

The date of this prospectus is February 6, 2006

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

Dealer Prospectus Delivery Requirement

Until March 3, 2006 (25 days after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including the information set forth in "Risk Factors," for a more complete understanding of this offering. Except where the context suggests otherwise, the terms "we," "us" and "our" refer to Resource Capital Corp. and its subsidiaries, "Manager" refers to Resource Capital Manager, Inc., our external manager and "Resource America" refers to Resource America, Inc. and its affiliated companies, including the Manager. Unless indicated otherwise, the information in this prospectus assumes no exercise by the underwriters, for whom Credit Suisse Securities (USA) LLC, Friedman, Billings, Ramsey & Co., Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. are acting as representatives, of their option to purchase up to an additional 600,000 shares of our common stock solely to cover over-allotments, if any.

Our Company

We are a specialty finance company that intends to qualify and will elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes commencing with our taxable year ending December 31, 2005. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We intend to invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We intend to finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and to mitigate interest rate risk through derivative instruments. Future distributions and capital appreciation are not guaranteed, however, and we have only limited operating history and REIT experience upon which you can base an assessment of our ability to achieve our objectives.

Our investments will target the following asset classes:

Asset class	Principal investments
Commercial real estate-related assets	• Commercial mortgage-backed securities, which we refer to as CMBS • Subordinated interests in first mortgage real estate loans, which we refer to as B notes • Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party financing
Residential real estate-related assets	• Agency residential mortgage-backed securities, which we refer to as RMBS, which are guaranteed by federally chartered entities • Non-agency RMBS
Commercial finance assets	• Syndicated bank loans • Other asset-backed securities, which we refer to as ABS, backed principally by small business and syndicated bank loans and, to a lesser extent, by consumer receivables • Equipment leases, principally small- and middle-ticket commercial direct financing leases • Trust preferred securities of financial institutions • Private equity investments, principally issued by financial institutions

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We use multiple strategies to finance our investment portfolio. In our non-agency RMBS, CMBS, other ABS, syndicated bank loans, equipment lease and trust preferred asset classes, we intend to use warehouse facilities as a short-term financing source before the execution of collateralized debt obligations, which we refer to as CDOs, or other term financing secured by these assets. In our commercial real estate loan portfolio, we intend to use repurchase agreements as a short-term financing source and CDOs and other term financing as a long-term financing source. We finance our agency RMBS portfolio with short-term repurchase arrangements. We seek to mitigate the risk created by any mismatch between the maturities and repricing dates of our agency RMBS and the maturities and repricing dates of the repurchase agreements we use to finance them through derivative instruments, principally floating to fixed interest rate swap agreements.

Our investment portfolio as of September 30, 2005 reflects our initial investment of substantially all of the $214.8 million net proceeds from our March 2005 private offering. We intend to diversify our portfolio over our targeted asset classes during the next 12 months as follows: between 20% and 25% in commercial real estate-related assets, between 25% and 30% in agency RMBS, between 15% and 20% in non-agency RMBS, and between 30% and 35% in commercial finance assets, subject to the availability of appropriate investment opportunities and changes in market conditions. We expect that diversifying our portfolio by shifting the mix towards higher-yielding assets will increase our earnings, subject to maintaining the credit quality of our portfolio. Credit quality refers to the probability that a loan will be repaid in a timely manner. In general, as credit quality decreases, yields increase to compensate for increased default risk. If we are unable to maintain the credit quality of our portfolio, we will be subject to increased default risk, including the risk of payment defaults. If we experience payment defaults, our revenues will be reduced and our costs, particularly costs we incur to enforce our rights with respect to defaulting assets, may increase, thereby reducing our earnings. Because the amount of leverage we intend to use will vary by asset class, our asset allocation may not reflect the relative amounts of equity capital we have invested in the respective classes.

We have not adopted policies that require us to establish or maintain any specific asset allocations. As a result, we cannot predict the percentage of our assets that we will invest in each asset class or whether we will invest in other asset classes or investments. Investing in multiple asset classes does not reduce or eliminate many of the risks associated with our investment portfolio such as geographic concentration risk and credit risk. We may change our investment strategies and policies, and the percentage of assets that may be invested in each asset class, without a vote of our stockholders.

Because we will elect and intend to qualify to be taxed as a REIT and to operate our business so as to be excluded from regulation under the Investment Company Act of 1940, as amended, we are required to invest a substantial majority of our assets in qualifying real estate assets, such as agency RMBS, B notes with unilateral foreclosure rights on the underlying mortgages, mortgage loans and other liens on and interests in real estate. Therefore, the percentage of our assets we may invest in other mortgage-backed securities, or MBS, other B notes, mezzanine debt, other ABS, syndicated bank loans, equipment leases, trust preferred securities, private equity and other types of investments is limited, unless those investments comply with federal income tax requirements for REIT qualification and requirements for exclusion from Investment Company Act regulation.

Our income is generated primarily from the net interest spread, or the difference between the interest income we earn on our investment portfolio and the cost of financing our investment portfolio, which includes the interest expense, fees, and related expenses that we pay on our borrowings and the cost of the interest rate hedges that we use to manage our interest rate risk.

On March 8, 2005, we raised gross proceeds of $230 million through a private placement of 15,333,334 shares of common stock to accredited investors as defined by Regulation D under the Securities Act of 1933, as amended, and qualified institutional buyers as defined by Rule 144A under the Securities Act and through offers and sales that occurred outside of the U.S. within the meaning of Regulation S of the Securities Act. Credit Suisse Securities (USA) LLC acted as the initial purchaser/placement agent in connection with the offering.

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Our Investment Portfolio
As of September 30, 2005, our investment portfolio consisted of the following (dollars in thousands):

	Amortized Cost	Estimated fair value	Percent of our total investments(1)	Weighted average coupon(1)
Commercial real estate-related assets				
CMBS	$ 27,976	$ 27,783	1.48%	5.57%
B notes	81,900	81,900	4.36%	6.63%
Mezzanine loans	5,000	5,000	0.27%	9.50%
Total commercial real estate-related assets	114,876	114,683	6.11%	6.50%
Residential real estate-related assets				
Agency RMBS	1,070,719	1,062,512	56.61%	4.53%
Non-agency RMBS	334,375	334,555	17.83%	5.44%
Total residential real estate-related assets	1,405,094	1,397,067	74.44%	4.75%
Commercial finance assets				
Syndicated bank loans	315,664	315,664	16.82%	6.10%
Other ABS	22,343	22,265	1.19%	5.29%
Equipment leases	25,097	25,097	1.34%	10.04%
Private equity	2,005	1,990	0.10%	6.18%
Total commercial finance assets	365,109	365,016	19.45%	6.32%
Total	$ 1,885,079	$ 1,876,766	100.00%	5.16%

(1) Based on estimated fair value.
Our strategy in each of our asset classes is as follows:

- ***Commercial real estate-related investments***

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

    As of September 30, 2005, we had invested $27.8 million on a fair value basis, or 1.48% of our total investments, in CMBS. This portfolio had a weighted-average rating factor, or WARF, of 346, or a weighted average rating between Baa1 and Baa2 by Moody's and between BBB+ and BBB by Standard and Poor's. WARF is the quantitative equivalent of Moody's traditional rating categories and is used by Moody's in its credit enhancement calculations for securitization transactions. Our strategy for this class targets a maximum WARF of 610. As of September 30, 2005, the CMBS we had purchased were consistent with our strategic target for this asset class. We expect that this class will decrease to 1% or

less of our total investments in the next 12 months as we diversify our investments.

- *Subordinate interests in whole loans (B notes).* We invest in subordinated interests in whole loans, referred to as B notes, purchased from third parties. B notes are loans secured by a first mortgage and subordinated to a senior interest, referred to as an A note. The subordination of a B note is generally evidenced by a co-lender or participation agreement between the holders of the related A note and the B note. B note lenders have the same obligations, collateral and borrower as the A note lenders, but are typically subordinated in recovering upon default. B notes share certain

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credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our B note investments to have loan to value, or LTV, ratios of between 60% and 80%.

As of September 30, 2005, we held four B note investments with a fair value of $81.9 million, or 4.36% of our total investments. The loans had an original weighted average LTV ratio of 72.9%. These investments are consistent with our strategic target for this asset class. We expect that this class will increase to between 18% and 20% of our total investments in the next 12 months as we diversify our investments.

 Mezzanine financing. We invest in mezzanine loans that are senior to the borrower s equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. We do not expect to obtain ratings on these investments until we aggregate and finance them through a CDO transaction. We expect our mezzanine investments to have LTV ratios of between 70% and 85%.

As of September 30, 2005, we held one mezzanine loan with a fair value of $5.0 million, or 0.27% of our total investments. The loan had an original LTV ratio of 84.2%. This investment is consistent with our strategic target for this asset class. We expect that this class will increase to between 2% and 5% of our total investments in the next 12 months as we diversify our investments.

 Residential real estate-related investments

 Agency RMBS. We invest in adjustable rate and hybrid adjustable rate agency RMBS, which are securities representing interests in mortgage loans secured by residential real property, on which payments of both principal and interest are generally made monthly, net of any fees paid to the issuer, servicer or guarantor of the securities. RMBS differ from traditional fixed income securities with respect to the possibility that principal on the RMBS may be prepaid at any time due to prepayments on the underlying mortgage loans. In agency RMBS, the mortgage loans in the pools are guaranteed as to principal and interest by federally chartered entities such as Government National Mortgage Association, known as Ginnie Mae, the Federal Home Loan Mortgage Corporation, known as Freddie Mac, and the Federal National Mortgage Association, known as Fannie Mae. In general, our agency RMBS will have an implied AAA rating and will consist of mortgage pools in which we have the entire interest.

 Non-agency RMBS. We also invest in non-agency RMBS. The principal difference between agency RMBS and non-agency RMBS is that the mortgages underlying the non-agency RMBS do not conform to agency guidelines as a result of documentation deficiencies, high LTV ratios or credit quality issues. In contrast to agency RMBS, non-agency RMBS typically have structural characteristics that mitigate their prepayment and extension risk. We intend for our investments in non-agency RMBS to be primarily adjustable rate securities. We expect that our non-agency RMBS will include loan pools with home equity loans that are secured by subordinate liens, as well as loan pools that are secured by first and second lien residential mortgage loans secured by the related mortgage properties. The underlying residential borrowers can be characterized as sub-prime borrowers with lower FICO scores, generally below 625, mid-prime borrowers with mid-range scores, generally between 626 and 675, or prime borrowers with the highest FICO scores, generally above 675. We expect that most of the non-agency RMBS in

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which we invest will be rated between AAA and Ba2 by Moody’s and between AAA and BB by Standard and Poor’s, although some of our investments may be rated only by Moody’s.

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

As of September 30, 2005, we had invested $1.1 billion on a fair value basis, or 56.61% of our total investments, in agency RMBS, and $334.6 million on a fair value basis, or 17.83% of our total investments, in non-agency RMBS, with a weighted average original FICO score of 638. Our agency RMBS had an implied AAA rating. Our non-agency RMBS portfolio had a WARF of 358, or a weighted average rating between Baa1 and Baa2 by Moody’s and between BBB+ and BBB by Standard and Poor’s, and an original LTV ratio of 80.7%. As of September 30, 2005, the RMBS we had purchased were consistent with our strategic target for this asset class. We expect that our agency RMBS will decrease to between 25% and 30%, and our non-agency RMBS will decrease to between 15% and 20%, of our total investments in the next 12 months as we diversify our investments.

- ***Commercial finance investments***

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

    As of September 30, 2005, we had invested $315.7 million on a fair value basis, or 16.82% of our total investments, in syndicated bank loans. This portfolio had a WARF of 2,075 or a weighted average rating between Ba3 and B1 by Moody’s and between BB- and CCC+ by Standard & Poor’s. As of September 30, 2005, the syndicated loans we had invested in were consistent with our strategic target for this asset class. We expect that this class will increase to between 27% and 30% of our total investments in the next 12 months.

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

    As of September 30, 2005, we had invested $22.3 million on a fair value basis, or 1.19% of our total investments, in other ABS. This portfolio had a WARF of 397 or a weighted average rating between Baa2 and Baa3 by Moody’s and between BBB and BBB- by Standard & Poor’s. As of September 30, 2005, the other ABS we had purchased were consistent with our strategic target for this asset class. We expect that this class will decrease to 1.0% or less of our total investments in the next 12 months as we diversify our investments.

  - *Equipment leases*. We invest in small- and middle-ticket equipment leases. We expect that we will focus on lease equipment and other assets that are essential for businesses to conduct their operations so that end users will be highly motivated to make required monthly payments. We expect the average maturity of our equipment financings to be between five and seven years and static pool write-offs to be less than 50 basis points.

    As of September 30, 2005, we held $25.1 million on a fair value basis, or 1.34% of our total investments, of equipment leases, net of unearned income. We expect that this class will remain at between 1% and 4% of our total investments in the next 12 months as we diversify our investments.

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

  As of September 30, 2005, we had not invested in trust preferred securities. We expect that this class will constitute less than 1% of our total investments in the next 12 months.

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

  As of September 30, 2005, we held one private equity investment with a fair value of $2.0 million, or 0.10% of our total investments. We expect that this class will constitute less than 1% of our total investments in the next 12 months.

The table below summarizes our borrowings as of September 30, 2005 (dollars in thousands):

	Repurchase agreements[1]	CDOs[2]	Warehouse facility	Total
Outstanding borrowings	$ 1,059,736	679,129	$ 35,255	$ 1,774,120
Weighted-average borrowing rate	3.86%	4.24%	3.89%	4.01%
Weighted-average remaining maturity	15 days	24.1 years	182 days	

(1) Includes accrued interest of $1.1 million.

(2) Amount represents principal outstanding of $689.5 million less unamortized issuance costs of $10.4 million.

Business Strengths

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

Deep experience in targeted asset classes. Through the Manager and Resource America, we have access to a team of 51 investment professionals that has broad experience originating, investing in, managing and financing commercial and residential real estate-related assets and commercial finance assets.

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

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

Significant experience in asset-liability management. Since 2002, Resource America has sponsored 11 CDOs with approximately $3.8 billion in assets on a cost basis, including two of our CDOS, Ischus CDO II, Ltd. and Apidos CDO I, Ltd., which financed over $665.1 million of our assets. In addition, the Manager's and Resource America's professionals have significant experience in using hedging instruments to manage the

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interest rate risk associated with the asset classes we invest in, and managed $972.2 million in notional amount of interest rate swaps and an interest rate cap agreement with a notional amount of $15.0 million for us as of September 30, 2005.

Summary Risk Factors

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

- We were recently formed, and have a limited operating history and limited experience operating as a REIT. As a result, investors will not be able to evaluate whether we will be able to execute our investment strategies or operate profitably.

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

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

- There are potential conflicts of interest in our relationship with the Manager, which could result in decisions that are not in the best interests of our stockholders. Our management agreement was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. In addition, affiliates of the Manager may sponsor or manage other investment vehicles in the future with an investment focus similar to ours, which could result in us competing for access to the benefits that our relationship with the Manager provides to us.

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

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