ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (unaudited)

This report contains certain forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expects," "intend," "may," "plan," "potential," "project," "should," "will" and "would" or the negative of these terms or other comparable terminology. Such statements are subject to the risks and uncertainties more particularly described in Item 1A, under the caption "Risk Factors," in our Annual Report on Form 10-K for the year ended September 30, 2011 and in other of our public filings with the Securities and Exchange Commission. These risks and uncertainties could cause our actual results and financial position to differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required under applicable law.

Overview of the Three Months Ended December 31, 2011 and 2010

We are a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through our real estate, commercial finance and financial fund management sectors. As a specialized asset manager, we seek to develop investment funds for outside investors for which we provide asset management services, typically under long-term management arrangements either through a contract with, or as the manager or general partner of, our sponsored investment funds. We typically maintain an investment in the funds we sponsor. As of December 31, 2011, we managed $13.3 billion of assets.

We limit our fund development and management services to asset classes where we own existing operating companies or have specific expertise. We believe this strategy enhances the return on investment we can achieve for our funds. In our real estate operations, we concentrate on the ownership, operation and management of multifamily and commercial real estate and real estate mortgage loans including whole mortgage loans, first priority interests in commercial mortgage loans, known as A notes, subordinated interests in first mortgage loans, known as B notes, mezzanine loans, investments in discounted and distressed real estate loans and investments in "value-added" properties (properties which, although not distressed, need substantial improvements to reach their full investment potential). In our financial fund management operations, we concentrate on trust preferred securities of banks, bank holding companies, insurance companies and other financial companies, bank loans and asset backed securities, or ABS.

In our real estate segment, we have focused our efforts primarily on acquiring and managing a diversified portfolio of commercial real estate and real estate related debt that has been significantly discounted due to the effects of current economic conditions and high levels of leverage. We expect to continue to expand this business by raising investor funds through our retail broker channel for investment programs, principally through RRE Opportunity REIT. We also continue to monetize our legacy real estate portfolio.

In our financial fund management segment, we have sponsored and manage issuers of collateralized debt and loan obligations, or CDOs and CLOs, respectively, for which we continue to receive fees. In fiscal 2012, we expect to continue to focus on managing our existing assets and, to the extent market conditions permit, expand our CLO business. In October 2011, on behalf of RCC and third-party investors, we closed Apidos CLO VIII, a $350.0 million CLO, for which we will receive asset management fees in the future. On December 29, 2011, we entered into a sale and purchase agreement to sell our equity interests of Apidos Capital Management, LLC, or Apidos, our CLO management subsidiary, for (i) $25.0 million in cash and partnership interests in a joint venture that includes the Apidos portfolios as well as the portfolios contributed by our venture partner. Additionally, we will retain a preferred equity interest in Apidos, which will entitle us to receive incentive management fees from the legacy Apidos portfolios. We anticipate that, subject to government approvals, the sale will be consummated in our next fiscal quarter ending March 31, 2012, or shortly thereafter.

Our commercial finance operations underwent significant restructuring and recapitalization during fiscal 2011 and the first quarter of fiscal 2012. These transactions provided substantial amounts of both equity and debt financing to the lease origination and servicing platform, which is now held by LEAF Commercial Capital, Inc., or LEAF. Our subsidiary, LEAF Financial Corporation, retained the partnership management operations. As a result of the recapitalization, our equity interest in LEAF was reduced to 15.7% on a fully diluted basis, and we have deconsolidated LEAF from our financial statements as of November 16, 2011. We have recorded a $8.7 million gain on the deconsolidation of LEAF, inclusive of a $1.7 million remeasurement gain to reflect our investment in LEAF at fair value. Due to the deconsolidation of LEAF, we have decreased our total assets at December 31, 2011 by $227.9 million and our outstanding borrowings by $184.7 million from the corresponding balances reported at September 30, 2011. We will account for our future interests in LEAF as an equity investment.

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